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NAVAL POSTGRADUATE SCHOOL

MONTEREY, CALIFORNIA

THESIS

**CHINA PAKISTAN ECONOMIC CORRIDOR (CPEC):
CHALLENGES AND THE WAY FORWARD**

by

Muzaffar Hussain

June 2017

Thesis Advisor:
Second Reader:

Robert E. Looney
Carolyn Halladay

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REPORT DOCUMENTATION PAGE			<i>Form Approved OMB No. 0704-0188</i>	
Public reporting burden for this collection of information is estimated to average 1 hour per response, including the time for reviewing instruction, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington, VA 22202-4302, and to the Office of Management and Budget, Paperwork Reduction Project (0704-0188) Washington, DC 20503.				
1. AGENCY USE ONLY (Leave blank)		2. REPORT DATE June 2017		3. REPORT TYPE AND DATES COVERED Master's thesis
4. TITLE AND SUBTITLE CHINA PAKISTAN ECONOMIC CORRIDOR (CPEC): CHALLENGES AND THE WAY FORWARD			5. FUNDING NUMBERS	
6. AUTHOR(S) Muzaffar Hussain				
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Naval Postgraduate School Monterey, CA 93943-5000			8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING /MONITORING AGENCY NAME(S) AND ADDRESS(ES) N/A			10. SPONSORING / MONITORING AGENCY REPORT NUMBER	
11. SUPPLEMENTARY NOTES The views expressed in this thesis are those of the author and do not reflect the official policy or position of the Department of Defense or the U.S. Government. IRB number ____N/A____.				
12a. DISTRIBUTION / AVAILABILITY STATEMENT Approved for public release. Distribution is unlimited.			12b. DISTRIBUTION CODE	
13. ABSTRACT The China-Pakistan Economic Corridor (CPEC)—the latest venture in a history of bilateral economic cooperation, with a \$46 billion investment in energy and infrastructure development in Pakistan—is considered a game changer for Pakistan's economy. As a flagship project of China's One Belt One Road initiative, the corridor will connect Kashgar in Western China with the port of Gwadar in Pakistan on the Arabian Sea, serving as a gateway to the Middle East, Africa, and Central Asia. The CPEC, in addition to boosting Pakistan's economy and meeting China's energy needs and development of its western region, is likely to bring stability in the region through economic integration. Nonetheless, a project of such scale certainly faces equally significant challenges. This thesis examines obstacles that have the potential to affect the implementation of the project, including the unstable situation in Afghanistan, competing interests of immediate neighbors like India and Iran, especially India's suspicions, and U.S. concerns about the initiative. The thesis draws from a wide range of scholarly and peer-reviewed literature, academic journals, think-tank reports, and government-sponsored studies. Missing from their analysis, though, is the consideration of the regional geopolitical dynamics and Pakistan's domestic challenges—particularly insecurity and violence—that can affect the implementation of the CPEC project. This thesis seeks to address that gap and provides policy recommendations for Pakistan to deal with potential impediments in implementation of the project.				
14. SUBJECT TERMS CPEC, Pakistan, China, India, South Asia, OBOR, corridor, Gwadar, Chabahar, Balochistan, Indian Ocean, regional security, economic integration, energy needs, regional geopolitics, terrorism, internal stability, political consensus, socioeconomic, connectivity.			15. NUMBER OF PAGES 105	
			16. PRICE CODE	
17. SECURITY CLASSIFICATION OF REPORT Unclassified	18. SECURITY CLASSIFICATION OF THIS PAGE Unclassified	19. SECURITY CLASSIFICATION OF ABSTRACT Unclassified	20. LIMITATION OF ABSTRACT UU	

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**CHINA PAKISTAN ECONOMIC CORRIDOR (CPEC):
CHALLENGES AND THE WAY FORWARD**

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Lieutenant Colonel, Pakistan Army
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Submitted in partial fulfillment of the
requirements for the degree of

**MASTER OF ARTS IN SECURITY STUDIES
(COMBATING TERRORISM: POLICY & STRATEGY)**

from the

**NAVAL POSTGRADUATE SCHOOL
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ABSTRACT

The China-Pakistan Economic Corridor (CPEC)—the latest venture in a history of bilateral economic cooperation, with a \$46 billion investment in energy and infrastructure development in Pakistan—is considered a game changer for Pakistan’s economy. As a flagship project of China’s One Belt One Road initiative, the corridor will connect Kashgar in Western China with the port of Gwadar in Pakistan on the Arabian Sea, serving as a gateway to the Middle East, Africa, and Central Asia. The CPEC, in addition to boosting Pakistan’s economy and meeting China’s energy needs and development of its western region, is likely to bring stability in the region through economic integration.

Nonetheless, a project of such scale certainly faces equally significant challenges. This thesis examines obstacles that have the potential to affect the implementation of the project, including the unstable situation in Afghanistan, competing interests of immediate neighbors like India and Iran, especially India’s suspicions, and U.S. concerns about the initiative.

The thesis draws from a wide range of scholarly and peer-reviewed literature, academic journals, think-tank reports, and government-sponsored studies. Missing from their analysis, though, is the consideration of the regional geopolitical dynamics and Pakistan’s domestic challenges—particularly insecurity and violence—that can affect the implementation of the CPEC project. This thesis seeks to address that gap and provides policy recommendations for Pakistan to deal with potential impediments in implementation of the project.

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LIST OF ACRONYMS AND ABBREVIATIONS

BLA	Balochistan Liberation Army
BLF	Balochistan Liberation Front
CAR	Central Asian Republics
CPEC	China-Pakistan Economic Corridor
EHP	Early Harvest Program
ETIM	East Turkestan Islamic Movement
FATA	Federally Administered Tribal Areas
FTA	Free Trade Agreement
GDP	gross domestic product
ISIS	Islamic State of Iraq and Levant
JuA	Jamaat-ul-Ahrar
KKH	Karakorum Highway
KPK	Khyber Pakhtunkhwa
LeJ	Lashkar-e-Jhangvi
MW	megawatt
NATO	North Atlantic Treaty Organization
NDRC	National Development and Reform Committee
NDS	National Directorate of Security
OBOR	One Belt One Road
PAEC	Pakistan Atomic Energy Commission
PBoC	People's Bank of China
PLA	People's Liberation Army
PRC	Peoples Republic of China
RAW	Research and Analysis Wing
ROC	Republic of China
SAARC	South Asian Association for Regional Cooperation
SEZ	Special Economic Zones
TTP	Tehreek-e-Taliban Pakistan

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ACKNOWLEDGMENTS

First of all, I bow my head to Allah Almighty for providing me an opportunity to advance my educational career at a prestigious institution like the Naval Postgraduate School and granting me the strength to complete my thesis. I am in debt to the Pakistan Army for trusting in my abilities and providing me an opportunity to pursue my studies. I am also thankful to my writing coach, Dr. Cheryldee Huddleston, for her consistent effort in making my writing more expressive. I owe special thanks to the faculty of Department of National Security Affairs for making me enlightened on a range of subjects and conceptual issues.

Second, I would like to thank my thesis advisor, Professor Robert Looney, for his dedicated guidance, assistance, and continuous support throughout the process. I am extremely indebted to my second reader, Professor Carolyn Halladay (who happens to be my Academic Associate too), for her strong guidance, valuable contribution, swift response, and untiring patience throughout the thesis completion.

Finally, I would like to thank my family for their continued support throughout my career. To my parents, for giving me the tools to succeed through their prayers, and especially to my father, who struggled hard to equip us with the power of knowledge and education. My special thanks to my beloved wife, Kaneez Fatima, for her unconditional support, patience, love and encouragement through thick and thin. My special love to our adorable children, Sheezal, Ali Dayan, Inayah, and Raaya, who always lift my spirits and are a source of inspiration.

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I. INTRODUCTION

The China-Pakistan Economic Corridor (CPEC) is an umbrella project and a component of the One Belt One Road (OBOR) initiative announced in March 2015 by China's National Development and Reform Committee (NDRC).¹ With a Chinese commitment of U.S. \$46 billion in investment, the corridor will link Kashgar in Western China with the port of Gwadar on the Arabian Sea through a road and rail network of the eastern, central, and western routes from Gwadar.² The project aims at providing connectivity across Pakistan through highway and railway links accompanied by other developmental projects in energy, port, industrial parks, economic zones, and pipelines.³ The joint enterprise by China and Pakistan is intended to enhance investment, trade and economic cooperation. The project will be completed in three phases over 15 years.⁴ As the flagship project of the OBOR, the CPEC carries immense importance for both China and Pakistan and will set the pace for the OBOR initiative. Pakistan and China see the CPEC as not just beneficial for themselves, but also for the entire region and trans-region; it is therefore imperative for Pakistan to ensure its successful implementation.

A. MAJOR RESEARCH QUESTION

Though the CPEC holds promising opportunities for Pakistan's economic growth, potential challenges exist to its smooth execution, including regional instability, internal security and political impediments. Thus, this thesis asks: Which measures should Pakistan adopt to overcome the main challenges and threats?

¹ Daniel S. Markey and James West, "Behind China's Gambit in Pakistan," Council on Foreign Relations, last modified May 12, 2016, <http://www.cfr.org/pakistan/behind-chinas-gambit-pakistan/p37855>.

² Amna Ejaz Rafi, "Completion of CPEC: Impact on Pakistan's Strategic Position and Economy," Islamabad Policy Research Institute, last modified July 11, 2016, <http://www.ipripak.org/completion-of-cpec-impact-on-pakistans-strategic-position-and-economy>.

³ Markey and West, "Behind China's Gambit in Pakistan," 2.

⁴ Alvin Cheng-Hin Lim, "The China-Pakistan Economic Corridor One Year On – Analysis," *Eurasia Review*, May 16, 2016, <http://www.eurasiareview.com/16052016-the-china-pakistan-economic-corridor-one-year-on-analysis/>.

B. IMPORTANCE

The CPEC is important for both China and Pakistan. As the world's largest oil importer—with the bulk of its oil imports from the Gulf States and Africa—China sees in the new route a guarantee of its energy security.⁵ Moreover, through the CPEC, China intends to raise its impoverished western regions out of poverty, to help Chinese companies through state and bank lending that will return higher profits and also benefit the Chinese economy, and to secure easy access to efficient and dependable routes for the transportation of energy resources.⁶

The CPEC offers an opportunity for Pakistan to address most of its more entrenched structural problems and to raise the quality of life of its people. Pakistan, despite its huge native potential and its geographical significance, has been struggling over the past few decades to recover from economic turmoil. This state of affairs owes to a number of contributing factors, including the lack of internal security that discourages foreign investment and the energy crisis that has brought economic growth to a halt.

Indeed, Pakistan's critical power shortfall causes losses of up to 2 percent of gross domestic product (GDP) annually.⁷ Likewise, the poor performance of the transport sector causes a loss of about 4 percent to 6 percent of GDP every year.⁸ The huge investment of \$46 billion in energy and infrastructure projects aims to enhance communication grid and equitable economic development within the country; the amount of investment in the CPEC equals the combined gross foreign direct investment into Pakistan since 1970.⁹

⁵ Dhrubajyoti Bhattacharjee, "China Pakistan Economic Corridor (CPEC)," Indian Council of World Affairs (Issue Brief), May 12, 2015, 5, <http://www.icwa.in/pdfs/IB/2014/CPECIB12052015.pdf>.

⁶ Christopher K. Johnson, "President Xi Jinping's "Belt and Road" Initiative," Center for Strategic & International Studies, last modified March 2016, https://csis-prod.s3.amazonaws.com/s3fs-public/publication/160328_Johnson_PresidentXiJinping_Web.pdf.

⁷ Rashid Aziz and Munawar Baseer Ahmad, "Pakistan's Power Crisis - The Way Forward," United States Institute of Peace, Special Report 375, June 2015, 1, <https://www.usip.org/sites/default/files/SR375-Pakistans-Power-Crisis-The-Way-Forward.pdf>.

⁸ Ibid.

⁹ Maryam Nazir, "Macro and Micro Dividends of CPEC," Islamabad Policy Research Institute, November 1, 2016, <http://www.ipripak.org/macro-and-micro-dividends-of-cpec-efforts-of-regional-and-international-players-to-disrupt-the-development-in-the-region-its-ramifications-and-rectifications>.

In particular, Balochistan, the largest but least developed province of Pakistan, expects to benefit most from the project as it is the hub of major economic and infrastructure activities of the project including development of Gwadar port. The people of Baluchistan have long been in need of such development projects. Lack of education, fewer employment opportunities, and over-dependency on Sardars (feudal lords) have contributed to the spread of violence and insurgency in Baluchistan. CPEC developments will make way for enormous economic opportunities for the people of the province that has been stuck with instability and political turmoil for quite some time.

Nonetheless, a project of such scale certainly faces equally significant challenges. This thesis attempts to identify the obstacles that have the potential to affect the implementation of the project, be they internal insecurity and political constraints or regional geostrategic impediments. The aim is to assess Pakistan's security, political milieu, and regional environments in order to suggest measures to counter potential threats.

C. LITERATURE REVIEW

The primary objective of this thesis is to identify the challenges and obstacles facing the implementation of the China-Pakistan Economic Corridor. Due to the relatively current nature of the subject, no published books are available. Nonetheless, in my preliminary research, I have examined a wide range of scholarly and peer-reviewed literature, academic journals, think-tank reports, and government-sponsored studies. The current literature concurs that CPEC is a diverse, long-term, and multifaceted project;¹⁰ yet there are two opposing views on the impact of the project on the region. Some observers, especially U.S. and Indian policymakers, see the investment purely through a realist lens and analyze its implications for its neighbors. This view tends to cast Pakistan as a launchpad to a bigger strategic role for China in the Indian Ocean and the Middle

¹⁰ Markey and West, "Behind China's Gambit in Pakistan," 3; Lim, "The China-Pakistan Economic Corridor One Year On – Analysis."

East.¹¹ However, for others, “CPEC is not only an investment project between two countries but it is a network of opportunities for long-term integration in the whole region in order to increase trade and economic cooperation in the region.”¹²

Missing from this analysis, for the most part, is the consideration of the regional geopolitical dynamics and Pakistan’s domestic challenges—particularly insecurity and violence—that can affect the implementation of the CPEC project. Hence, for the literature review, the existing literature on the topic can be divided into two categories: regional dynamics and domestic political, and security constraints.

1. Regional Dynamics

Most scholars have expressed their concerns about various regional considerations in the implementation of the CPEC project. These challenges extend from the prevailing regional environment in Afghanistan to competing interests of immediate neighbors like India and Iran.¹³

Some writers view the investment as having larger geopolitical implications. The huge Chinese investment in the region raises concerns from neighbors, especially from India, which is worried about China’s growing influence and ambition in the Indian Ocean.¹⁴ India has also expressed its concerns over the CPEC route passing through Gilgit-Baltistan, which India claims as part of the disputed territory of Jammu and Kashmir.¹⁵ Moreover, Chinese firms’ involvement in the Pakistani part of Kashmir is

¹¹ Louis Ritzinger, “The China-Pakistan Economic Corridor: Regional Dynamics and China’s Geopolitical Ambitions,” National Bureau of Asian Research, last modified August 5, 2015, http://www.nbr.org/downloads/pdfs/psa/Commentary_Ritzinger_080515.pdf; Bhattacharjee, “China Pakistan Economic Corridor (CPEC),” 11; Daniel Twining, “As the U.S. Pivots Away, China Bets on Pakistan,” Center for Strategic & International Studies, last modified April 23, 2015, www.csis.org/analysis/pacnet-26-us-pivots-away-china-bets-pakistan.

¹² Waheed Ali, Li Gang, and Mohsin Raza, “China-Pakistan Economic Corridor: Current Developments and Future Prospect for Regional Integration,” *International Journal of Research* 3, no. 10 (2016): 220, https://internationaljournalofresearch.com/list-of-volumes/volume-3_2016/vol-3_issue-10_june_2016.

¹³ Ritzinger, “The China-Pakistan Economic Corridor,” 3; Akber Ali, “China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration,” *Arts Social Sciences Journal* 7, no. 204 (2016): 1, doi: 10.4172/2151-6200.1000204.

¹⁴ Markey and West, “Behind China’s Gambit in Pakistan,” 7.

¹⁵ Bhattacharjee, “China Pakistan Economic Corridor (CPEC),” 2.

viewed by Indians as Chinese support to Pakistan's claim on the territory.¹⁶ Not incidentally, India is investing in Iran's port of Chabahar, 72 kilometers west of Gwadar port,¹⁷ as an alternate route and a gateway to access Afghanistan and Central Asia. The growing ties between China and Pakistan and the heavy investment in Gwadar by China is perceived by Indians as an obstacle to their ambitions to reach Afghanistan and Central Asia for a possible trade connection.¹⁸

India also views the project as China's geostrategic advancement for an easy access to its naval presence and influence in the Arabian Sea.¹⁹ As a result, Pakistan believes that, disconcerted and frustrated, India has intensified its financial and military support to anti-state elements. In particular, Pakistan suspects India of aiding Baloch insurgents in hopes of escalating the violence in Balochistan and Karachi to disrupt the CPEC project.²⁰ Following the arrest of an alleged officer of the premier Indian intelligence agency in Balochistan in March 2016, the Pakistan Army Chief blamed the Indian Research and Analysis Wing (RAW) for destabilizing the project.²¹

Additionally, a stabilized Afghanistan is equally important for the CPEC to succeed. With the withdrawal of NATO forces from Afghanistan and the Taliban's refusal to engage in the quadrilateral forum after the killing of its leader, Mullah

¹⁶ Anilesh S. Mahajan, "Worrying Signals; China's Growing Investments in Pakistan Could Prove to be a Headache for India," *Business Today*, May 24, 2015, <http://www.businesstoday.in/magazine/focus/china-investments-in-pakistan-rising-headache-for-india/story/218868.html>.

¹⁷ Muhammad Daim Fazil, "5 Reasons Gwadar Port Trumps Chabahar," *Diplomat*, June 9, 2016, <http://thediplomat.com/2016/06/5-reasons-gwadar-port-trumps-chabahar>.

¹⁸ Massarrat Abid and Ayesha Ashfaq, "CPEC: Challenges and Opportunities for Pakistan," *Pakistan Vision* 16, no 2 (2015): 159, http://pu.edu.pk/images/journal/studies/PDF-FILES/Artical-7_v16_2_2015.pdf.

¹⁹ Markey and West, "Behind China's Gambit in Pakistan," 7; Mahajan, "Worrying Signals."

²⁰ Mario Esteban, "The China-Pakistan Corridor: A Transit, Economic or Development Corridor?" *Elcano Royal Institute*, ARI 53/2016, July 5, 2016, 3, <http://www.realinstitutoelcano.org/wps/wcm/connect/f0dc14004d61c688a4b3ac9b30f1f92d/ARI53-2016-Esteban-China-Pakistan-corridor-transit-economic-development.pdf?MOD=AJPERES&CACHEID=f0dc14004d61c688a4b3ac9b30f1f92d>; Jamal Hussain, "China Pakistan Economic Corridor" *Defence Journal* 19, no.6 (Jan 2016): 13–21, ProQuest, search run August 3, 2016, <http://search.proquest.com.libproxy.nps.edu/docview/1768622920/fulltextPDF/E9CD1F07870544A1PQ/1?accountid=12702>.

²¹ Lim, "The China-Pakistan Economic Corridor One Year On – Analysis."

Mansoor, in a drone attack by U.S. forces in May 2016,²² the security situation in Afghanistan is deteriorating.²³ The spillover effects can undermine the security environment in both Pakistan and the western regions of China.²⁴ Afghanistan's Kunar and Nuristan provinces, bordering Pakistan, harbor various local and global terrorist groups including Turkestan Islamic Party, an affiliate of The East Turkestan Islamic Movement (ETIM) of Uighur militants.²⁵ Considering the Uighur militants' links with the Taliban in Federally Administered Tribal Areas (FATA), these groups are a constant threat to the CPEC project in the northern regions of Pakistan. These groups have already been involved in the killing and kidnapping of Chinese nationals working in various parts of Pakistan and have threatened to further intensify their operations.²⁶

Moreover, the United States and Iran also have concerns about the CPEC. Iran is not comfortable with the development of Gwadar as a deep-sea port and considers the project as a rival to its Chabahar port in the mouth of Strait of Hormuz, built with Indian assistance.²⁷ Partially in response, India, Iran, and Afghanistan have recently signed an agreement in May 2016 under the trilateral framework with India's investment of up to \$500 million to develop Chabahar as a strategic port.²⁸ The project will give all three countries an alternate connection, bypassing Pakistan for a regional trade and for access to the landlocked countries of Central Asia.²⁹

On the other hand, the United States views the CPEC with long-term concerns. The operational control of Gwadar port gives leverage to Chinese naval power in the Indian Ocean, a potential threat to the supremacy in the oceans that U.S. naval forces

²² "Afghan Taliban's Mullah Mansoor 'Killed in U.S. Strike,'" *Al Jazeera*, May 22, 2016, <http://www.aljazeera.com/news/2016/05/taliban-leader-killed-drone-strike-160521204020111.html>.

²³ Ali, "China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration," 3.

²⁴ Ibid.

²⁵ Abid and Ashfaq, "CPEC: Challenges and Opportunities for Pakistan," 156.

²⁶ Markey and West, "Behind China's Gambit in Pakistan," 6.

²⁷ Hussain, "China Pakistan Economic Corridor," 18.

²⁸ "Iran, India, Afghanistan Sign Transit Accord on Chabahar Port," *Dawn News*, May 23, 2016, <http://www.dawn.com/news/1260176>.

²⁹ Ibid.

currently enjoy.³⁰ The growing U.S.-Indian strategic relationship in the last decade is evidence of the United States encouraging and supporting Indian naval power to counter the growing Chinese influence in the Indian Ocean.³¹

2. Domestic Constraints

Pakistan faces diverse security challenges, including religious extremism, sectarian and ethno-political violence, and law and order situations, which can pose serious threats to the execution of the CPEC.³² Various anti-state terrorist groups like Tehreek-e-Taliban Pakistan (TTP), Lashkar-e-Jhangvi (LeJ), Balochistan Liberation Army (BLA), Balochistan Liberation Front (BLF), and the militant wings of some political parties are potential threats and can target the Chinese interests as a tactic to malign the Pakistani state.³³ In a number of incidents, these terrorist groups have targeted Chinese workers and engineers in the past.³⁴ Moreover, the Chinese Uighur and ETIM militants in collaboration with the TTP present a key threat to Chinese interests in Pakistan.³⁵ However, the ongoing military operation, “Zarb-e-Azb” in FATA, which has focused on the country’s inaccessible areas in the western and north-western frontier regions, has weakened the operational capacity of all local and foreign terrorist groups including ETIM and Uighurs in recent months.³⁶

Similarly, any instability in Balochistan, where major development projects are underway, can hinder the execution of CPEC. Baloch insurgents oppose any such developments and have attacked many Chinese nationals in the past.³⁷ They have frequently blown up gas pipelines and trains in order to deter the non-local investors in

³⁰ Markey and West, “Behind China’s Gambit in Pakistan,” 7; Ritzinger, “China-Pakistan Economic Corridor,” 3.

³¹ Hussain, “China Pakistan Economic Corridor,” 4.

³² Markey and West, “Behind China’s Gambit in Pakistan,” 3.

³³ Abid and Ashfaq, “CPEC: Challenges and Opportunities for Pakistan,” 155.

³⁴ Ritzinger, “The China-Pakistan Economic Corridor,” 3.

³⁵ Hussain, “China Pakistan Economic Corridor,” 19.

³⁶ Ibid.

³⁷ Markey and West, “Behind China’s Gambit in Pakistan,” 6.

general and Chinese developers in particular.³⁸ The local populace of Balochistan suffers from political and economic deprivation coupled with fear of outsiders coming in and turning native Balochs into a minority.³⁹ With foreign involvement and assistance, Baloch insurgents are, therefore, exploiting this situation and have warned China “to stay away from Gwadar.”⁴⁰ Some argue that arch-rival India is out to sabotage the project and that its intelligence agency, RAW, has set up an exclusive office—investing up to \$300 million—for the purpose.⁴¹

To counter such threats and ensure the protection of development projects, the Pakistan Army is deploying a 10,000-man-strong special force raised exclusively for the purpose. The new force, named the Special Security Division, will include nine army battalions and six wings of paramilitary forces—the Rangers and the Frontier Corps.⁴² In addition to local and provincial security mechanisms, the Special Security Division will protect the Chinese workers employed on CPEC projects starting from Gwadar to Khunjab.⁴³

Besides security threats, political stumbling blocks can also derail the execution of the project. Though there is a consensus of major political parties in Pakistan on CPEC, there is a political controversy among various parties mainly on selection of the route and allocation of the funds related to the CPEC.⁴⁴ There are three independent corridors to be developed to link Kashgar with Gwadar—western, central, and eastern. The western alignment is the shortest route followed by the central and eastern alignments.⁴⁵ The key disagreement is on priority of development of these routes whereby underdeveloped provinces like Khyber Pakhtunkhwa and Balochistan accuse the

³⁸ Abid and Ashfaq, “CPEC: Challenges and Opportunities for Pakistan,” 152.

³⁹ Ali, “China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration,” 4.

⁴⁰ Esteban, “The China-Pakistan Corridor,” 2.

⁴¹ Abid and Ashfaq, “CPEC: Challenges and Opportunities for Pakistan,” 151.

⁴² Ibid., 156.

⁴³ Mateen Haider, “Army’s Special Security Division to Protect Chinese Workers in Pakistan,” *Dawn News*, April 21, 2015, accessed November 29, 2016, <http://www.dawn.com/news/1177322>.

⁴⁴ Markey and West, “Behind China’s Gambit in Pakistan,” 6.

⁴⁵ Hussain, “China Pakistan Economic Corridor,” 19.

federal government of changing the original route, which would only benefit more developed Punjab.⁴⁶ The lack of political consensus can have a negative effect on the implementation of CPEC considering the deep-rooted history of the political economy of Pakistan. History reveals that political gains take precedence over national interest, and issues like allocation of resources have always been politicized.⁴⁷

The lack of transparency in assigned deals is yet another issue that has raised concerns among political parties and other stakeholders, who have asked the government to make all CPEC-related agreements public.⁴⁸ Nevertheless, the cautious approach by concerned ministries makes the process more suspicious.⁴⁹

D. PROBLEMS AND HYPOTHESES

Leaving aside the debate on the real motivation behind China's huge investment in the region, most scholars have agreed on the significance of the project. It will address the energy needs of both the countries, thereby creating the opportunities for sustained economic growth. My preliminary research, however, has shaped two major hypotheses about obstacles that may hinder the implementation of the CPEC project: the internal security situation and regional dynamics.

Thus, first, the thesis hypothesizes that the internal security challenge is a major impediment to the execution of the CPEC project. The proposed western route runs through the challenging regions of Balochistan and Khyber Pakhtunkhwa (KPK). Therefore, the security situation, including extremist militancy and nationalist insurgency fueled by anti-state actors to destabilize Pakistan, can disrupt the plan. Furthermore, I assume that political constraints like the lack of political consensus in Pakistan over the CPEC route can become a potential hurdle in the implementation of the project. Some political parties in KPK and Balochistan blame the federal government for a perceived

⁴⁶ Markey and West, "Behind China's Gambit in Pakistan," 6; Abid and Ashfaq, "CPEC: Challenges and Opportunities for Pakistan," 154.

⁴⁷ Ali, "China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration," 4.

⁴⁸ Ibid.

⁴⁹ Markey and West, "Behind China's Gambit in Pakistan," 6.

change in the original route. Thus, the change in route would deprive their constituencies of development and investment prospects and will benefit Punjab only.

Furthermore, this thesis hypothesizes that a favorable geopolitical situation and regional stability are vital for the success of the CPEC. The unstable situation in Afghanistan, as well as U.S. and Iranian concerns and India's fears about the enterprise can affect the mega-project for better and worse. Though the CPEC presents greater avenues for broader regional cooperation, contributing toward regional stability and economic integration, it also has the risks of creating turbulence in the region given the competing interests of the states in the area.

E. METHODS AND SOURCES

Qualitative research represents the methodology used in this thesis. First, it establishes the foundation for the topic by describing the historical perspective of China-Pakistan relations, including these nations' economic ties, to identify the circumstances that led to the initiation of the current project. Second, this thesis takes stock of the project in detail and highlights its significance for Pakistan in terms of prosperity and economic growth. Third, the thesis discusses the current internal and regional environment in order to identify the variables that may influence implementation of the project. Using the findings to infer possible implications, this thesis provides policy suggestions to deal with potential impediments in the implementation of the project.

This thesis draws its research from secondary open sources, such as official statements and reports from China, Pakistan, and India. Also, a significant amount of discussion is based on the analyses and opinions by think tanks and major scholars in the field of strategic studies. In order to make the arguments fair and impartial, sources from major stakeholders, including the United States, India, China and Pakistan have been consulted. As the topic is a current subject, much has been written and continues to be written in the leading newspapers and journals of these countries. To extract valuable and current material on the subject, these credible news sources were also consulted.

F. THESIS OVERVIEW

The thesis comprises five chapters. Chapter I sets the foundation of research work, including the literature review and hypotheses. To provide context for the CPEC project and its implications, Chapter II begins with a historical overview of China-Pakistan relations, traces the background and pattern of Pakistan-China economic relations, and describes how the various governments in Pakistan affected these relations over a period of time.

The first half of Chapter III explains the technical and financial details of the project in various sectors, the geography of the three routes to be developed, and the timelines to be followed in the execution of various projects. The second half of the chapter deals with the strategic significance of the project for both the countries in particular and to the emerging economies of the region as a whole.

Chapter IV looks at the risks and challenges confronting CPEC and its implementation. The first half of the chapter discusses a range of impediments on the internal front—political constraints, security situation, corruption, transparency, absorption capacity—that put the success of the CPEC at risk. This section also deals with Balochistan, highlighting its strategic importance, and discusses the reasons for interference by India and other non-state actors in its internal dynamics. The second half of the chapter deliberates on the regional geopolitics, India's fears and stance on the initiative, and the regional stability, especially the potential problems stemming from Afghanistan.

Chapter V proposes options for Pakistan's policy makers to deal with these potential impediments for successful implementation of the project. This chapter also underlines the prospect of improving the region's security and prosperity as a result of perceived mutual economic interdependence between the states. Finally, this Chapter draws conclusions based on the opinions of experts in the field.

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II. HISTORICAL PERSPECTIVE

The Sino-Pakistan friendship is not a new phenomenon, dating back to 1950—soon after the Peoples Republic of China (PRC) won its independence in 1949.⁵⁰ The long history of relations between the two countries is based on mutual trust, sovereign equality, brotherhood, and cooperation. Leaders as well as the public in both countries describe the friendship as “higher than the Himalayas, sweeter than honey, and deeper than the sea.”⁵¹

To be sure, the current multifaceted bond was not established overnight; rather it has evolved through various challenges. Although misunderstandings have arisen over some issues as this relationship evolved, especially during the 1950s and 1970s, the two nations amicably resolved these issues and managed their relationship in a very productive manner by supporting each other in times of need.⁵² Pakistan helped China to connect to the world by operating the first international flight to Beijing, facilitated President Nixon’s visit to China, thus helping in normalizing U.S.-China relations,⁵³ and supported China’s sovereignty claim over Taiwan and Tibet. Similarly, China has helped Pakistan in developing its military and heavy industrial capacity as well as its communication infrastructure.⁵⁴ Some of the important events in the Sino-Pakistan relationship are discussed in the ensuing paragraphs.

⁵⁰ Hussain, “China Pakistan Economic Corridor,” 15.

⁵¹ Bruce Riedel and Pavneet Singh, “U.S.-China Relations: Seeking Strategic Convergence in Pakistan,” Brookings Institute Policy Paper, no. 18, January 2010, 3, https://www.brookings.edu/wp-content/uploads/2016/06/0112_US_China_Relations_Riedel.pdf; Ali, “China-Pakistan Economic Corridor,” 211.

⁵² Shakeel Ahmad Ramay, “CPEC: A Chinese Dream Being Materialized through Pakistan,” Sustainable Development Policy Institute, accessed January 12, 2017, [https://sdpi.org/publications/files/China-Pakistan-Economic-Corridor-\(Shakeel-Ahmad-Ramay\).pdf](https://sdpi.org/publications/files/China-Pakistan-Economic-Corridor-(Shakeel-Ahmad-Ramay).pdf).

⁵³ Manzoor Khan Afridi, “An Era of Climax of Cordiality in Sino-Pakistan Relations,” *International Journal of Social Science Studies* 3, no. 3, (2015): 116–122, <http://redfame.com/journal/index.php/ijsss/issue/view/35>.

⁵⁴ Mutahir Ahmed, “Sino Pakistan Relations and the Challenges of Post Cold War Era,” *Contemporary Chinese Political Economy and Strategic Relations: An International Journal* 1, no. 1 (2015): 37–50, [http://icaps.nsysu.edu.tw/ezfiles/122/1122/img/2375/CCPS1\(1\)-boards-contrib.pdf](http://icaps.nsysu.edu.tw/ezfiles/122/1122/img/2375/CCPS1(1)-boards-contrib.pdf).

A. POLITICAL AND DIPLOMATIC RELATIONS

In 1950, the Chairman of the Chinese Communist Party, Mao Zedong, announced that the PRC would develop diplomatic relations “with any foreign government willing to observe the principle of equality, mutual benefit, and mutual respect for sovereignty and territorial integrity.”⁵⁵ Pakistan recognized the PRC by responding to the statement of Chairman Mao. As then Chinese President Hu Jintao noted during a visit to Pakistan in November 2006, “Pakistan was one of the first countries to recognize China.”⁵⁶ Pakistan was certain that the PRC had no hegemonic motives against its neighbor states. Also, both the countries established that there were no real conflicts of interest between them.⁵⁷

In addition, Pakistan has always supported the “One China Policy” and in September 1950, voted in favor of a resolution to restore the lawful rights of the People’s Republic of China in the United Nations replacing the Republic of China (ROC) in the U.N. General Assembly.⁵⁸ Moreover, Pakistan also supported China’s place as one of the five permanent members of the UN Security Council. In 1951, trade relations between the two countries were formally established;⁵⁹ they were further advanced as the two countries signed a trade agreement in 1953.⁶⁰

Sino-Pakistan relations ran into turbulence, though, from the mid-1950s to the early 1960s. Pakistan’s signing of the Southeast Asia Treaty Organization and Central Treaty Organization pacts in 1954 and 1955, respectively, created some skepticism among Chinese government officials, who considered the pacts as a threat to regional and its own national security. After all, the primary objectives of these treaties were to

⁵⁵ Umbreen Javaid and Rameesha Javaid, “Strengthening Geo-Strategic Bond of Pakistan and China through Geo-Economic Configuration,” *Pakistan Economic and Social Review* 54, no. 1 (2016): 123–142, http://pu.edu.pk/images/journal/pesr/PDF-FILES/9_V54_1_SUM2016.pdf.

⁵⁶ Jafar Riaz Kataria and Anum Naveed, “Pakistan-China Social and Economic Relations,” *South Asian Studies* 29, no. 2 (2014): 395–410, http://pu.edu.pk/images/journal/csas/PDF/3_Jafar_Riaz_v29_no2_2014.pdf.

⁵⁷ Javaid and Javaid, “Strengthening Geo-Strategic Bond of Pakistan and China,” 124.

⁵⁸ *Ibid.*, 125.

⁵⁹ *Ibid.*

⁶⁰ Ramay, “CPEC: A Chinese Dream Being Materialized Through Pakistan,” 2.

contain the communist threat posed by USSR and China.⁶¹ However, Pakistan clarified that it joined these treaties as a security measure against the threat from India,⁶² a state which China also regarded as a common adversary.⁶³

Furthermore, Pakistan's President Ayub Khan stated in 1959, in regard to Tibet, that "the subcontinent would be vulnerable to attack within five years. Chinese occupation of Tibet and road construction activities in Afghanistan poses a serious threat from the north. It is a threat that cannot be overlooked by wishful thinking."⁶⁴ This pronouncement posed difficulties for Pakistan in dealing with China in the short term; however, the tension was amicably resolved by Zulfikar Ali Bhutto, then the foreign minister of Pakistan. Bhutto warned Ayub of possible damage to bilateral relations and thus advised him to seek reconciliation.⁶⁵

The relationship started solidifying again in the 1960s. In April 1961, the Kennedy administration asked the U.S. Congress for \$500 million in foreign aid to India for fiscal year 1962, compared to \$150 million to Pakistan, thus estranging a strategic ally. From Pakistan's perspective Washington's policy toward South Asia was changing as according to President Ayub, "an ally merited more support in its dispute with India than the neutral Nehru government."⁶⁶ Thus, Pakistan reviewed its role as a Western ally and rekindled its relations with China, again voting in favor of China's claim to the UN.⁶⁷ Likewise, Pakistan supported China in its 1962 war with India.⁶⁸ In response, China announced its intention to resolve the Sino-Pakistan border disputes.⁶⁹ Both

⁶¹ Javaid and Javaid, "Strengthening Geo-Strategic Bond of Pakistan and China," 125.

⁶² Ramay, "CPEC: A Chinese Dream Being Materialized Through Pakistan," 2.

⁶³ Hussain, "China Pakistan Economic Corridor," 15.

⁶⁴ Umbreen Javaid and Asifa Jahangir, "Pakistan-China Strategic Relationship: A Glorious Journey of 55 Years," *Journal of the Research Society of Pakistan (JRSP)* 52, no. 1 (2015): 157–183, http://pu.edu.pk/images/journal/history/PDF-FILES/9-%20PC%20Umbreen%20Javaid_52-1-15.pdf.

⁶⁵ Ramay, "CPEC: A Chinese Dream Being Materialized Through Pakistan," 2.

⁶⁶ "Foreign Relations of the United States 1961–1963, Vol. XIX, South Asia," U.S. Department of State, http://dosfan.lib.uic.edu/ERC/frus/summaries/960820_FRUS_XIX_1961-63.html.

⁶⁷ Javaid and Javaid, "Strengthening Geo-Strategic Bond of Pakistan and China," 125.

⁶⁸ Hussain, "China Pakistan Economic Corridor," 15.

⁶⁹ Javaid and Javaid, "Strengthening Geo-Strategic Bond of Pakistan and China," 125.

countries officially agreed to align their common border in northern Kashmir and Ladakh regions. The Sino-Pakistan border agreement, concluded in 1963, further reinforced the ties between the two nations.⁷⁰ The same year, China gave up its neutral position on the Kashmir issue between India and Pakistan and supported the latter's stance for conducting a plebiscite.⁷¹ The United States for the first time postponed a \$4.3 million loan to Pakistan to build a new airport at Dacca as a result of the latter's changing stances and expansion in the Sino-Pakistan relationship.⁷²

Conversely, China supported Pakistan during its times of need and offered military, technical, and economic support. It helped Pakistan build its military capacity, particularly such facilities as the heavy mechanical complex in Taxila in 1968, the ordinance factory in East Pakistan in 1970, and the aeronautical complex in 1971.⁷³

In the 1960s, the policy of Zulfikar Ali Bhutto, foreign minister of Pakistan under President Ayub Khan, brought the two nations closer still.⁷⁴ On Pakistan-China Relations, Bhutto stated in 1962:

I should like to make it clear beyond all doubt that we have friendly relations with the People's Republic of China and that nothing will be permitted in any way to endanger those relations. Our relations with China are an independent factor in our foreign policy.... I declare that our friendship with China is not tainted by any form of bargain or barter. It is steadfast amity between two neighboring Asian States.⁷⁵

During the 1965 Indo-Pakistan war, China extended diplomatic and moral support to Pakistan.⁷⁶ Similarly, after the war, China provided unconditional military assistance

⁷⁰ Hussain, "China Pakistan Economic Corridor," 15.

⁷¹ Javaid and Javaid, "Strengthening Geo-Strategic Bond of Pakistan and China," 126.

⁷² Muhammad Iqbal and Samia Khalid, "Pakistan's Relations with the United States during Ayub Khan's Period," *Pakistaniaat: A Journal of Pakistan Studies* 3, no. 1 (2011): 13–24, <https://ia800703.us.archive.org/4/items/PakistansRelationsWithTheUnitedStatesDuringAyubKhansPeriod/4912-25131-2-PB.pdf>.

⁷³ Ramay, "CPEC: A Chinese Dream Being Materialized Through Pakistan," 4.

⁷⁴ Hussain, "China Pakistan Economic Corridor," 15.

⁷⁵ Muhamamad Arif, "Zulfikar Ali Bhutto on Pakistan China Relations," Nihao-Salam: Pakistan-China Institute promoting China Pakistan Economic Corridor, accessed January 28, 2017, <http://www.nihao-salam.com/news-detail.php?id=NDE4Mg>.

⁷⁶ Javaid and Javaid, "Strengthening Geo-Strategic Bond of Pakistan and China," 126.

to Pakistan when the United States—the main source of weapons for Pakistan—instituted an arms embargo against its ally Pakistan.⁷⁷ In contrast, Moscow remained neutral during the war and India continued to receive military equipment from the Soviet Union. This situation underscored to Pakistan the importance of its relations with China.

In 1966, the two countries jointly initiated the Trans-Karakorum Highway (KKH), also known as the “Friendship Highway” and often referred to as the Eighth Wonder of the World,⁷⁸ being one of the highest paved roads in the world. The project was completed in 1978, costing the lives of around 800 Pakistanis and 200 Chinese workers during the 20-year effort.⁷⁹ The highway connects the Gilgit-Baltistan of Pakistan to the western Chinese province of Xinjiang across the Karakorum mountain ranges through the Khunjerab Pass, traversing one of the ancient Silk Road trading routes.⁸⁰

On the defense front, Pakistan’s military leadership frequently visited China. In 1968, the goodwill secured by these exchanges resulted in Pakistan receiving equipment and machinery worth 15 million rupees for its Heavy Mechanical Complex from China. In 1963, China offered a US\$50 million interest-free loan to Pakistan for its economic and infrastructure development,⁸¹ and between 1965 and 1971, China provided foreign aid totaling an estimated US\$445 million.⁸²

The era of the 1970s witnessed a clear divergence from the 1960s in the number of internal and external events for Pakistan in the Cold War environment. Changes in the interests and policies of external as well as regional players transformed geopolitical dynamics in South Asia, in turn affecting the Sino-Pakistan friendship.⁸³ In the 1971 Indo-Pakistan war, China could not help Pakistan and offered only “verbal support” by denouncing India as meddling in Pakistan’s internal affairs and later supporting a resolution

⁷⁷ Hussain, “China Pakistan Economic Corridor,” 15.

⁷⁸ Riedel, “US.-China Relations: Seeking Strategic Convergence in Pakistan.”

⁷⁹ Hussain, “China Pakistan Economic Corridor,” 15.

⁸⁰ Afridi, “An Era of Climax of Cordiality in Sino-Pakistan Relations.”

⁸¹ Javaid and Jahangir, “Pakistan-China Strategic Relationship.”

⁸² Ibid.

⁸³ Javaid and Javaid, “Strengthening Geo-Strategic Bond of Pakistan and China,” 126.

in the U.N. Security Council against Indian aggression.⁸⁴ At the same time, the widening Sino-Soviet rift offered an opportunity for the United States to realign its foreign policy with regard to China in order to counter the threat of the Soviet expansionism in Asia.⁸⁵ On Nixon's request, Pakistan facilitated the secret visit of National Security Adviser Henry Kissinger to China as Pakistani President Yahya Khan had cordial relations with the leaders of both the countries. Thus, Pakistan played the key role in Nixon's visit to China, bringing the United States and China closer and ending many years of hostility.⁸⁶

In late 1979, the Soviets invaded Afghanistan, which revitalized Sino-Pakistan relations. China feared the Soviets' act as an expansion strategy aimed at reaching the Arabian Sea and ultimately gaining hegemony in the whole of Asia.⁸⁷ China also feared encirclement with 1,000,000 Soviet troops deployed on Sino-Soviet border.⁸⁸ Islamabad, too, viewed Soviet expansion as a threat to Pakistan. The shared concern moved the two countries to work together, along with the United States and its allies, to expel Soviet forces from Afghanistan through financial and military assistance to Afghan Mujahedeen.⁸⁹

Nevertheless, the strategic significance that Pakistan enjoyed during the Cold War and especially in the proxy war in Afghanistan started to decline in the post-Cold War era. This change in Pakistan's status reflected a change in world politics and the interests of international players. Washington left Islamabad to deal by itself with war-stricken Afghanistan as well as its own internal problems, such as Afghan refugees, Kalashnikov culture, and sectarian violence as a fallout of the Afghan war.⁹⁰ Additionally, due to its nuclear program, Pakistan faced a U.S. military and economic embargo in the form of the

⁸⁴ Javaid and Javaid, "Strengthening Geo-Strategic Bond of Pakistan and China," 126.

⁸⁵ Riedel, "U.S.-China Relations: Seeking Strategic Convergence in Pakistan," 3.

⁸⁶ "Rapprochement with China, 1972," Office of the Historian, Bureau of Public Affairs, United States Department of State, accessed February 2, 2017, <https://history.state.gov/milestones/1969-1976/rapprochement-china>.

⁸⁷ Javaid and Jahangir, "Pakistan-China Strategic Relationship," 172.

⁸⁸ Ibid.

⁸⁹ Riedel, "U.S.-China Relations: Seeking Strategic Convergence in Pakistan," 4.

⁹⁰ Javaid and Jahangir, "Pakistan-China Strategic Relationship," 173.

Pressler Amendment sanctions.⁹¹ Meanwhile, the notion of security expanded from conventional to socio-economic affairs in the 1990s and China started emerging as a key player in the unipolar world order.⁹² Pakistan had to re-evaluate its foreign policies and it turned to China. Beijing responded by providing required military and economic assistance.⁹³

The Sino-Pakistan relationship further strengthened as China supported Pakistan in every sector including military, specifically its missile and nuclear program. This relationship fostered confidence building between policy makers and people of both countries.⁹⁴ In 1992, China helped Pakistan build a 300-megawatt Chashma nuclear power plant.⁹⁵ The project was expanded with the development of three more units; a joint collaboration between the China National Nuclear Corporation and Pakistan Atomic Energy Commission, maintaining the highest safety standards as per International Atomic Energy Agency agreements.⁹⁶

Politically, the relationship is currently marked by the frequent exchange of high-level visits of the civilian and military leadership of both countries. On the Chinese side, each generation of Chinese Communist Party leadership has visited Pakistan. Pakistan has reciprocated the gesture as every leader, on coming into power, has visited Beijing as his or her first foreign trip.⁹⁷

B. TRADE AND ECONOMIC RELATIONS

While perhaps not yet as deep as the political and military relationship, the bilateral trade and economic relations between China and Pakistan have grown steadily since the establishment of diplomatic ties. In September 1949, India's devaluation of its

⁹¹ Javaid and Jahangir, "Pakistan-China Strategic Relationship," 173.

⁹² Ibid., 174.

⁹³ Riedel, "US.-China Relations: Seeking Strategic Convergence in Pakistan," 5.

⁹⁴ Ramay, "CPEC: A Chinese Dream Being Materialized Through Pakistan," 2.

⁹⁵ Ibid., 4.

⁹⁶ "Pakistan's Fourth Nuclear Power Plant, Built with China's Assistance, Goes Online" *Dawn News*, December 29, 2016, <http://www.dawn.com/news/1304960>.

⁹⁷ Riedel, "US.-China Relations: Seeking Strategic Convergence in Pakistan," 5.

currency badly affected Pakistan's economy as Pakistan was importing coal from India for its growing industry in exchange for exporting cotton and jute to India.⁹⁸ China offered "coal for cotton," and Pakistan exported 97.2 million rupees' worth of cotton and jute to China for coal under the barter agreement of 1952.⁹⁹ The first formal long-term trade agreement was signed in January 1963, whereby both countries granted Most Favored Nation status to each other, thus establishing mutual trade and commercial links.¹⁰⁰ This foundation guided the establishment of the Joint Commission for Economy, Trade and Technology in October 1982.¹⁰¹

With globalization expanding, socio-economic considerations were given precedence in formulating geostrategic priorities.¹⁰² The changed regional and global environment urged both countries to expand economic ties to match with the global and regional interdependency in trade and investments. The aim was to boost their economic relations to a level compatible with their political and defense relations.¹⁰³ Thus, a substantial increase in trade was observed as exports to China increased from US\$89 million in 1991 to \$456 million in 2000. Likewise, imports also increased from \$597 million to \$637 million during the same period.¹⁰⁴

Pakistan's President Pervez Musharraf visited China in January 2000 and stressed the economic cooperation between the two countries. Bilateral economic relations further strengthened in the new millennium as both countries concluded six agreements worth US\$1 billion during Chinese Prime Minister Zhu Rongji's visit to Pakistan in May

⁹⁸ Javaid and Jahangir, "Pakistan-China Strategic Relationship," 161.

⁹⁹ Ibid., 162.

¹⁰⁰ Muhammad Saqib Irshad, Qi Xin, and Hamza Arshad, "One Belt and One Road: Dose China-Pakistan Economic Corridor benefit for Pakistan's Economy?" *Journal of Economics and Sustainable Development* 6, no.24 (2015): 202, http://china-trade-research.hktdc.com/resources/MI_Portal/Article/obor/2016/04/474089/1460080496674_SSRNid2710352.pdf.

¹⁰¹ Ali, "China-Pakistan Economic Corridor," 211.

¹⁰² Javaid and Jahangir, "Pakistan-China Strategic Relationship," 174.

¹⁰³ Fazal-ur-Rahman, "Pakistan-China Trade and Investment Relations," paper presented at seminar on Pakistan-China Relations - 2011: Year of Friendship, Institute of Strategic Studies, Islamabad, January 11-12, 2011, http://issi.org.pk/wp-content/uploads/2014/06/1299822989_45060000.pdf.

¹⁰⁴ Atul Kumar, "China-Pakistan Economic Relations," Institute of Peace and Conflict Studies (IPCS) Special Report 30, September 2006, <https://www.files.ethz.ch/isn/95442/IPCS-Special-Report-30.pdf>.

2001.¹⁰⁵ The agreements included cooperation in tourism, economic, and technical initiatives; a lease on the Saindak gold and copper project; and the supply of passenger coaches and locomotives to Pakistan Railways, in addition to cooperating in the development of Gwadar Port and the Coastal Highway.¹⁰⁶ The volume of bilateral trade reached US\$4.5 billion in 2005 as compared to around \$1 billion in 2000.¹⁰⁷

Substantive economic engagements between both countries commenced in November 2003 by concluding the bilateral Preferential Trade Agreement. Later negotiations were conducted through a Joint Feasibility Study to frame a bilateral Free Trade Agreement (FTA).¹⁰⁸ In 2005, an Agreement on an Early Harvest Program (EHP) of the FTA was agreed to by the two sides and became operational on January 1, 2006. Under the EHP China reduced tariffs on 767 items to zero; while in response, Pakistan extended zero-rated tariffs on 464 items.¹⁰⁹ Both countries also negotiated a Treaty of Friendship, Cooperation, and Good Neighborly Relations.¹¹⁰ As a result of comprehensive discussions, both countries signed the FTA and a joint five-year development program on Economic and Trade Cooperation in November 2006, to be effective from July 2007.¹¹¹ Accordingly, the EHP was merged into the FTA. Later, both countries signed the FTA on trade in services in February 2009, to be effective from October 2009. For both the countries, tariff reduction or elimination was to be completed in the first phase by January 1, 2012, and the two countries decided to review and modify the tariff reduction procedure every five years.¹¹² The FTA covers both trade in goods and investment. At that time, Pakistan was the first country to have a portion of the investment in the FTAs being conducted by

¹⁰⁵ Ali, "China-Pakistan Economic Corridor," 212.

¹⁰⁶ Ibid.

¹⁰⁷ Fazal-ur-Rahman, "Pakistan-China Trade and Investment Relations," 3.

¹⁰⁸ Javaid and Jahangir, "Pakistan-China Strategic Relationship," 178.

¹⁰⁹ Kumar, "China-Pakistan Economic Relations."

¹¹⁰ Ali, "China-Pakistan Economic Corridor," 212.

¹¹¹ Irshad, Xin, and Arshad, "One Belt and One Road," 200.

¹¹² Khawaja AbdulHaq, "Sino-Pak Economic Relations: The Challenges and Lessons for Pakistan," (bachelor's thesis, South China University of Technology, 2015), 6, http://www.academia.edu/19219619/Economic_relation_between_China_and_Pakistan.

China.¹¹³ Through this agreement China gained market access to cotton, bed linens, agricultural produce, marble, sporting goods, and raw materials from Pakistan and provided Pakistan with access to chemicals, electronics, electrical machinery, fishery, plastics, rubber, iron and steel, and industrial machinery.¹¹⁴

Bilateral trade between Pakistan and China increased significantly under the FTA, from US\$5.2 billion in 2006 to \$16 billion in 2014 with an annual growth of 12.57 percent.¹¹⁵ The agreement targeted raising bilateral trade to \$20 billion by 2017.¹¹⁶ In 2006, China was Pakistan's third largest importing partner, having a 10 percent share of Pakistan's total imports. After implementation of the FTA, China became Pakistan's second major importing partner accounting for 16.17 percent of that country's total imports in 2013.¹¹⁷ Table 1 and Table 2 illustrate the pre- and post-FTA bilateral trade between China and Pakistan.

Table 1. Pre-FTA Bilateral Trade between Pakistan and China (US\$ Millions)¹¹⁸

Years	Exports	Imports
1999	180.72	446.76
2000	244.64	550.11
2001	289.38	487.02
2002	236.37	698.54
2003	259.64	957.33
2004	300.58	1,488.77
2005	435.68	2,349.39

¹¹³ Ibid.

¹¹⁴ Kataria and Naveed, "Pakistan-China Social and Economic Relations," 403.

¹¹⁵ Irshad, Xin, and Arshad, "One Belt and One Road," 201.

¹¹⁶ Ibid.

¹¹⁷ Qandeel Siddique, "Deeper than the Indian Ocean? An Analysis of Pakistan China Relations," Centre for International and Strategic Analysis, SISA Report no. 16, February 2014, http://strategiskanalyse.no/Publikasjoner%202014/2014-02-27_SISA16_Sino-Pak_QS.pdf.

¹¹⁸ Source: AbdulHaq, "Sino-Pak Economic Relations: The Challenges and Lessons for Pakistan."

Table 2. Post-FTA Bilateral Trade between Pakistan and China (US\$ Millions)¹¹⁹

	2006	2007	2008	2009	2010	2011	2012
Imports from China	2,915	4,164	4,738	3,780	5,248	6,471	6,688
% of total imports from world	10%	13%	11%	12%	14%	15%	16%
Exports to China	507	614	727	998	1,436	1,679	2,620
% of total exports to world	3%	3%	4%	6%	7%	7%	11%

As evident from the figures, there is a gradual growth pattern in Pakistan's exports. Compared to Chinese exports to Pakistan, which increased by 1 percent during this period, Pakistan's exports witnessed an increase of 400 percent from around US\$500 million in 2006 to \$2.6 billion in 2012, with an 8 percent growth in Pakistan's total exports to China during this period.¹²⁰ Likewise, in 2014, growth of 60 percent was observed in Pakistan's exports to China, with an increase of US\$1 billion in one year.¹²¹

Nonetheless, the economic aspect of Sino-Pakistan relations has not yet been fully realized. Despite the significant growth in Pakistan's exports to China in the post-FTA period, the total bilateral trade volume favors China as Pakistan's top import supplies come from China, being cheap supplier of finished goods. The factors contributing to this imbalance are Pakistan's lack of competitiveness in manufactured products and dominance of only a narrow base of raw materials like cotton, rice, and leather as export goods. Also implicated in this imbalance are Pakistan's political instability and security situation.¹²²

There is a recognition in Pakistan's political and economic circles that bilateral economic cooperation and trade, along with people-to-people contact, has been a weak point in Pakistan-China relations.¹²³ The Chinese projects in Pakistan have remained focused mainly on the public sector, including heavy industry, energy, and infrastructure,

¹¹⁹ Ibid.

¹²⁰ Sial Safdar, "The China-Pakistan Economic Corridor: An Assessment of Potential Threats and Constraints," 1, accessed December 28, 2016, http://newsflash.com.pk/geopolitics_files/cpec.pdf.

¹²¹ AbdulHaq, "Sino-Pak Economic Relations," 10.

¹²² Ibid., 5.

¹²³ Siddique, "Deeper than the Indian Ocean?"

amounting to around US\$20 billion as of 2012,¹²⁴ though joint ventures do exist in other fields as well, including steel, telecommunications, and motorcycle manufacturing.¹²⁵ These investments have promoted Pakistan's self-confidence and efficiency in various fields but have not helped to develop Pakistan's export capacity.¹²⁶

According to some experts, however, the current trade deficit with Pakistan is not unusual. China's trade balance with most countries, including the United States and India, is inclined in China's favor.¹²⁷ Hence, Pakistan should take advantage of China's opening-up policy and its growing import demands because even a small share of this demand can benefit Pakistan's economy considerably.¹²⁸ While Pakistan is making efforts to lessen the trade deficit by increasing export volume and diversifying its export items list, China is also taking the trade imbalance seriously and adopting necessary measures to tackle this issue.¹²⁹

Sino-Pakistan economic relations are gradually evolving in every field, including trade and investment. To encourage trade growth, Pakistan's State Bank and People's Bank of China contracted a currency swap arrangement in May 2013, enabling the two countries to trade directly in mutual currencies instead of using U.S. dollars as the intermediary trade currency.¹³⁰ The agreement gives Pakistan the status of being the only country in South Asia to have a "free trade agreement and currency swap agreement with China."¹³¹ Currently, about 120 Chinese enterprises and more than 10,000 Chinese personnel are working in Pakistan in diverse sectors that include energy, infrastructure development, mineral resources development, telecommunications, and the auto

¹²⁴ Ibid.

¹²⁵ Kumar, "China-Pakistan Economic Relations."

¹²⁶ Irshad, Xin, and Arshad, "One Belt and One Road," 202.

¹²⁷ Siddique, "Deeper than the Indian Ocean?" 32.

¹²⁸ Irshad, Xin, and Arshad, "One Belt and One Road," 201.

¹²⁹ Siddique, "Deeper than the Indian Ocean?" 31.

¹³⁰ Ibid., 29.

¹³¹ Ibid., 31.

industry.¹³² These workers are contributing to Pakistan's economy by helping with its energy demands and exploiting alternative energy sources such as the Saindak copper-gold mine and Thal coal mining projects. China Mobile and Orient Group have invested around \$700 million each in the communication and energy sectors, respectively.¹³³

China is also helping in the construction of Gwadar Port. The first phase, to make it a deep-sea port, which started during the Musharraf era in 2002, was completed in 2006.¹³⁴ In 2013, operational control of the port was handed over to state-run Overseas Port Holdings Limited. In the second phase, besides the expansion of the port, China is also collaborating in the construction of Makran coastal highway to connect Gwadar Port to Karachi.¹³⁵

Along with Chinese investments and joint ventures in infrastructure development and energy, bilateral trade has also witnessed a steady growth contributing to a boost in Pakistan's frail economy. The CPEC project—the latest joint venture—is the result of an enduring friendship between China and Pakistan.

CPEC was initially proposed by Chinese Premier Li Keqiang during his visit to Pakistan in May 2013.¹³⁶ Accordingly, the CPEC secretariat was established in Islamabad in August 2013 to expedite implementation of the project. In April 2014, during his visit to China, the Pakistani prime minister further discussed the plan with his counterpart. In November 2014, China announced it would finance Chinese companies to build energy and infrastructure related projects worth US\$46 billion in Pakistan as part of the CPEC project.¹³⁷ The agreement was formally signed on April 20, 2015 during the Chinese president's visit to Pakistan.¹³⁸ Pakistan and China expect that the project will further bolster the existing bilateral trade and economic relations in future.

¹³² Noor Ahmed Memon, "Pak-China Economic and Trade Relations," PTJ, September 2010, 52–53, <http://www.ptj.com.pk/Web-2010/09-10/September-2010-PDF/Dr.Noor-2.pdf>.

¹³³ Siddique, "Deeper than the Indian Ocean?" 23.

¹³⁴ Hussain, "China Pakistan Economic Corridor," 16.

¹³⁵ Kataria and Naveed, "Pakistan-China Social and Economic Relations," 406.

¹³⁶ Bhattacharjee, "China Pakistan Economic Corridor (CPEC)," 1.

¹³⁷ Ibid., 2.

¹³⁸ Lim, "The China-Pakistan Economic Corridor One Year On – Analysis."

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III. CPEC AND ITS SIGNIFICANCE

CPEC developments are part of Chinese One Belt One Road initiative, a hallmark of Chinese President Xi Jinping's foreign policy project. Drafted by China's NDRC in March 2015, the initiative intends to foster a new kind of global relationship, featuring win-win cooperation.¹³⁹ OBOR envisages new state-directed investments in the network of communication infrastructure, oil and gas pipelines, and other infrastructure projects in order to further economic integration and linkages not only across Asia but also to Africa and Europe. The Silk Road Economic Belt and the 21st Century Maritime Silk Road are the two segments of the OBOR initiative, and Pakistan, through CPEC—as an extension of the Silk Road—can act as a link for the two routes.¹⁴⁰ The CPEC's goal is to revive the ancient Silk Road trading route in order to achieve regional stability and economic integration in the globalized world.¹⁴¹ This chapter thus sets out to explain the technical and financial details of the CPEC project and its strategic significance for both China and Pakistan.

A. WHAT IS CPEC?

The CPEC connects China's Western Region Kashgar with the Pakistani port of Gwadar in the Southwest via Khunjarab Pass across the Karakorum Range traversing about 3,000 kilometers.¹⁴² Through the CPEC, China plans to invest around US\$46 billion in development deals over the next ten to 15 years,¹⁴³ which is equivalent to about 20 percent of Pakistan's annual GDP.¹⁴⁴ Of this sum, around \$34 billion will be invested in the energy sector to improve Pakistan's energy-system capacity by adding about 17,000 megawatts of electricity generation to the national grid. The remaining \$12 billion

¹³⁹ Akber Ali, "China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration."

¹⁴⁰ Markey and West, "Behind China's Gambit in Pakistan."

¹⁴¹ Irshad, Xin, and Arshad, "One Belt and One Road," 203.

¹⁴² Ali, "China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration," 1.

¹⁴³ *Ibid.*, 2.

¹⁴⁴ Irshad, Xin, and Arshad, "One Belt and One Road," 202.

will be devoted to infrastructure, transport, and communication, including upgrading the railway line between Karachi and Peshawar.¹⁴⁵

The planned investment in different projects includes the energy sector (coal, hydroelectric, wind, solar, liquefied natural gas), transport infrastructure (roads, railway track, aviation), oil and gas pipelines, Gwadar port, industrial cooperation, and laying of optical fiber line.¹⁴⁶ Completion of all the projects is spread over 15 years in four phases: early harvest projects to be completed by 2018, short term projects by 2020, medium term projects by 2025, and long term projects to be completed by 2030.¹⁴⁷ The financial breakdown of the major projects is shown in Table 3.

Table 3. Financial Breakdown of CPEC Project¹⁴⁸

Project Details	Estimated Cost (US\$ billion)
Energy Sector	33.793
Transport Infrastructure	9.79
Gwadar Port including city and Gwadar region socio-economic development	0.793
Mass Transit Lahore	1.6
Fiber Optic Project	0.044
Total Cost	46.013

The energy projects are further divided into energy priority projects and energy actively promoted projects. The latter ones are to be recommended by the provinces.¹⁴⁹ A total of US\$21.5 billion is allocated for priority projects expecting to generate 10,400 megawatts of electricity, whereas \$12.9 billion will be utilized for actively promoted projects generating 6,645 megawatts electricity to the national grid (details are provided

¹⁴⁵ Irshad, Xin, and Arshad, "One Belt and One Road," 202.

¹⁴⁶ Ali, "China-Pakistan Economic Corridor," 211.

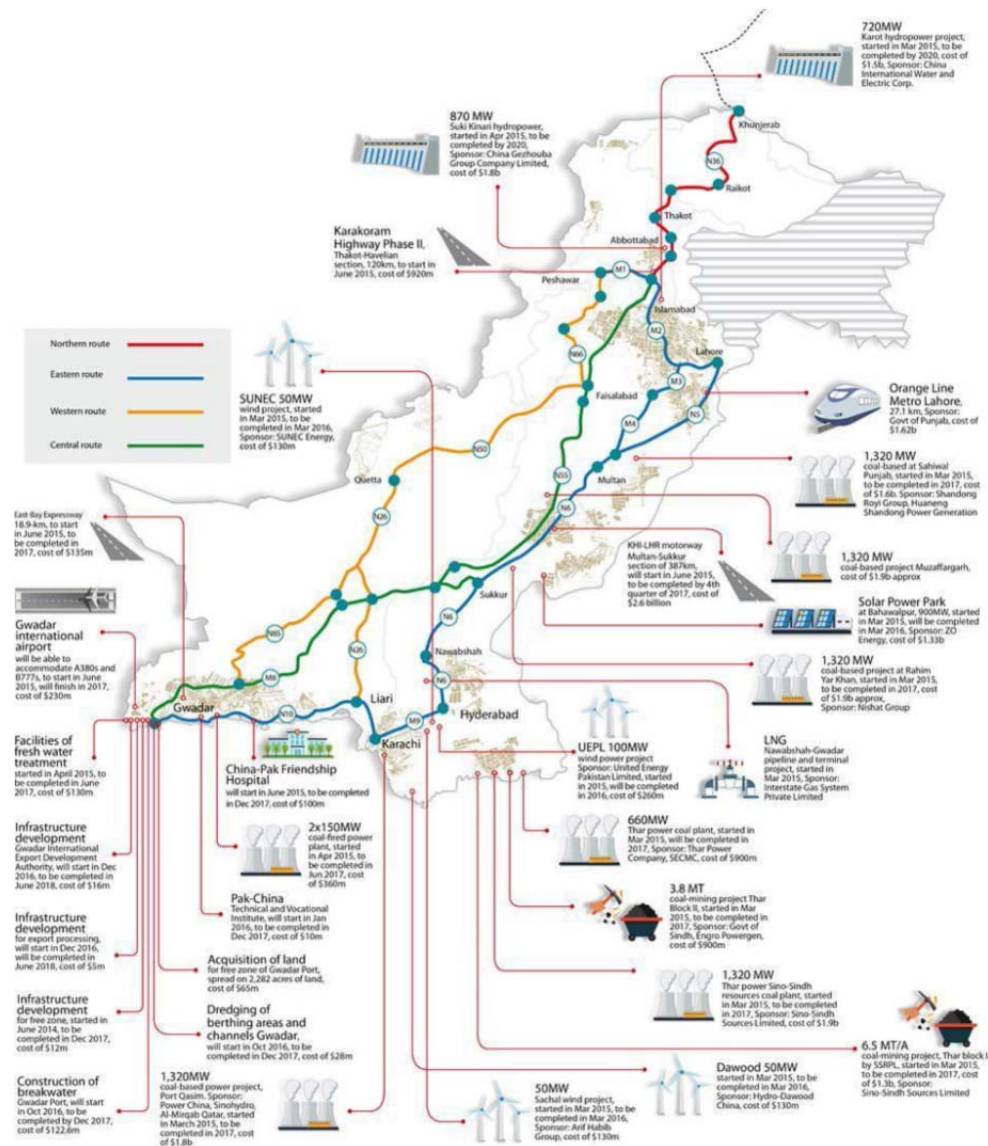
¹⁴⁷ Ibid.

¹⁴⁸ Adapted from CPEC: China Pakistan Economic Corridor, <http://cpec.gov.pk/>.

¹⁴⁹ Ibid., 213.

at Appendix A and Appendix B).¹⁵⁰ The accumulative generation of about 17,000 megawatts of electricity from these projects is likely to double Pakistan's existing energy capacity.¹⁵¹ Details of the planned CPEC projects are given in Figure 1.

Figure 1. Overview of the Proposed Routes and Projects under CPEC¹⁵²



¹⁵⁰ "CPEC-Energy Priority Projects," CPEC: China Pakistan Economic Corridor, <http://cpec.gov.pk/energy>; "CPEC-Energy Actively Promoted Projects," CPEC: China Pakistan Economic Corridor, accessed January 27, 2017, <http://cpec.gov.pk/energy>.

¹⁵¹ Markey and West, "Behind China's Gambit in Pakistan," 5.

¹⁵² Source: Javaid and Javaid, "Strengthening Geo-Strategic Bond of Pakistan and China."

The infrastructure development projects envision constructing, widening, and upgrading existing and new roads, as well as railway lines, including 1,200 kilometers of new track and upgrading of 3,100 kilometers of existing ones.¹⁵³ The physical corridor of the proposed CPEC is planned around three major routes: The western route runs through Balochistan and Khyber Pakhtunkhwa provinces via Turbat, Panjgur, Qalat, Quetta, Zhob, Dera Ismail Khan and then to Havelian. The western route has the option to be linked to Afghanistan and Iran through Chaman and Taftan, respectively.¹⁵⁴

The eastern route originates from Gwadar and runs through mainly Sindh and Punjab via Karachi, Hyderabad, Sukkhar, Rahimyar Khan, Multan, and then Havelian through the motorway. The central route crisscrosses the country from Gwadar until Havelian via different cities of Balochistan, Sindh, and Punjab provinces, including Khuzdar, Sukkhar, D.G. Khan, Mianwali, and Taxila. An extension from Taxila via Peshawar and Torkham will eventually connect Jalalabad in Afghanistan. From Havelian, a northern route that is common to all connects Kashgar via Karakorum Highway.¹⁵⁵ The western route is comparatively shortest and passes through relatively underdeveloped areas of Khyber Pakhtunkhwa and Balochistan, which has security issues. The eastern route, on the other hand, passes through more developed and peaceful areas with already held infrastructure requiring upgrading only. The work on main road projects such as the upgrade of Raikot-Islamabad and construction of Karachi-Peshawar, including the Sukkur-Multan section, has already commenced in 2016.¹⁵⁶

In addition to the physical links, the government in consultation with provincial governments and all stakeholders has identified over 40 sites from Khunjarab to Gwadar to establish as Special Economic Zones (SEZ) and industrial parks along the CPEC

¹⁵³ Markey and West, "Behind China's Gambit in Pakistan," 4.

¹⁵⁴ Abid and Ashfaq, "CPEC: Challenges and Opportunities for Pakistan," 150.

¹⁵⁵ Hussain, "China Pakistan Economic Corridor," 17; Markey and West, "Behind China's Gambit in Pakistan."

¹⁵⁶ "Peshawar-Karachi Motorway (Multan-Sukkur Section)," CPEC: China Pakistan Economic Corridor, accessed February 2, 2017, <http://cpec.gov.pk/project-details/29>.

routes.¹⁵⁷ These zones are expected to encourage foreign investment and boost the industrialization process by helping to generate local employment.¹⁵⁸

Similarly, the railway system will be upgraded by expansion and reconstruction of 1,736 kilometers of existing track on ML1 from Karachi to Peshawar, costing US\$3.6 billion. Inclusion of the Rail Based Mass Transit Systems in provincial headquarters is also being considered as part of the CPEC.¹⁵⁹ In long term, CPEC envisions construction of three new railway lines, including 682 kilometers of track from Havelian to Khunjarab border, Gwadar to Karachi, and Gwadar to Jacobabad. Feasibility studies and financial arrangements on these projects are yet to be considered. Further details of the infrastructure projects are at Appendix C.

Gwadar port holds the central place in the whole project as making the port fully functional would only enable the project to become an energy corridor. Some US\$793 million in investments in Gwadar include infrastructure development of Gwadar City, a new international airport, a hospital, and a Free Zone/Economic Processing Zone besides the expansion and upgrade of the port.¹⁶⁰ Details are contained in Appendix D. A technical workforce of about 500 Chinese are working around the clock to complete the projects in time.¹⁶¹

To monitor and facilitate smooth and timely implementation of the CPEC projects, both China and Pakistan have established a ministerial level Joint Cooperation Committee with five working groups dedicated to energy, transport, Gwadar port, industrial parks, and planning. The committee is co-chaired by the Minister for Planning and Development of Pakistan and the Vice Chairman of NDRC. All plans and projects are discussed in the working groups before being recommended to the committee to finalize.¹⁶²

¹⁵⁷ Markey and West, “Behind China’s Gambit in Pakistan,” 5.

¹⁵⁸ Ibid.

¹⁵⁹ Ministry of Planning Development and Reform, Government of Pakistan.

¹⁶⁰ Hussain, “China Pakistan Economic Corridor,” 18.

¹⁶¹ Ali, “China-Pakistan Economic Corridor,” 218.

¹⁶² Ministry of Planning Development and Reform, Government of Pakistan.

To provide financial support to CPEC projects, China established The Silk Road Fund Co. Ltd. in December 2014. This consortium of important Chinese Banks, such as the China Development Bank and China Exim Bank, is providing the finances under the overall management of the aforementioned company. China Export and Credit Insurance Corporation (Sinosure) will insure these loans against non-payment risks, while the state will guarantee the security of the loans.¹⁶³

B. SIGNIFICANCE

The CPEC signifies a new kind of Sino-Pakistan cooperation having the potential to further strengthen their political and economic relationship through trade and development. The project has strategic and economic importance for both China and Pakistan and has the ability to eventually facilitate the creation of regional stability in South Asia. Ensuing paragraphs explain the strategic importance of CPEC for both China and Pakistan.

1. Significance for China

For China, CPEC will provide easy and cost-effective access to the Indian Ocean and further to the Middle East and Africa through Gwadar Port.¹⁶⁴ The CPEC trade route will reduce the existing maritime distance of 12,000 kilometers between Beijing and Persian Gulf by shrinking it to a 3000-kilometer land route from Kashgar to Gwadar.¹⁶⁵ The new route will enable China to import such important supplies as oil from the Middle East and Africa in ten days as opposed to 45 days shipping time.¹⁶⁶ Also, the new route is expected to reduce the transportation costs to one-third of the current levels. China can save about US\$6 million every day, amounting to \$2 billion very year, if it uses the CPEC route even for only 50 percent of its oil imports.

¹⁶³ Hussain Ahmad Siddiqui, "CPEC Projects: Status, Cost and Benefits," *Daily Dawn*, last modified July 13, 2015, <http://www.dawn.com/news/1194014>.

¹⁶⁴ Ali, "China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration," 1; Hussain, "China Pakistan Economic Corridor."

¹⁶⁵ Ali, "China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration," 1.

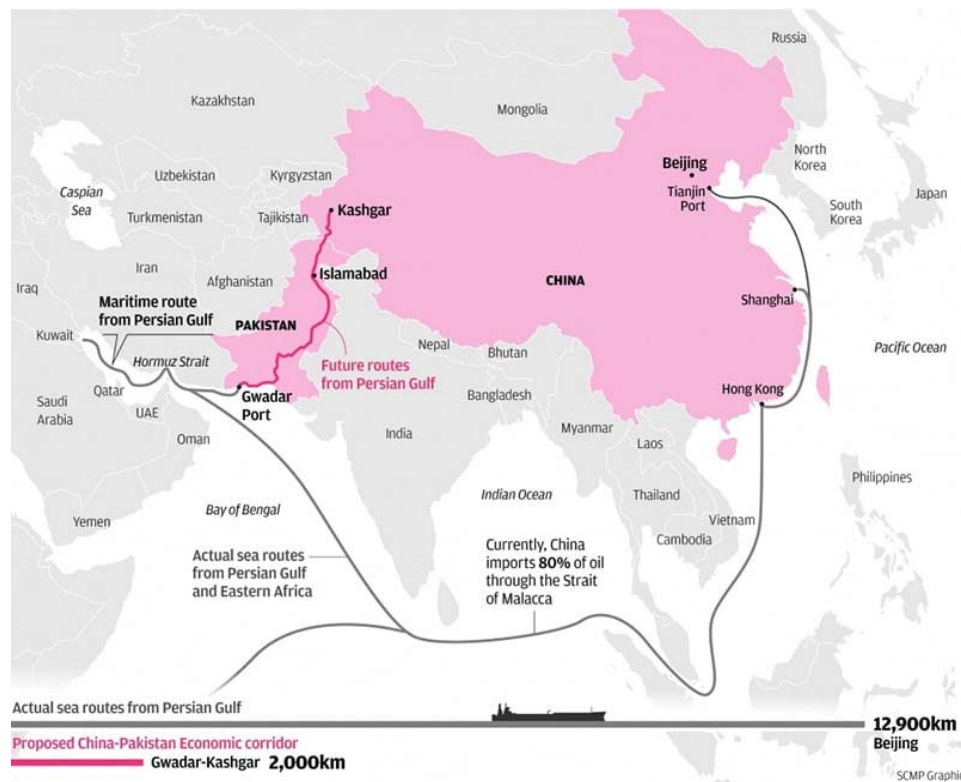
¹⁶⁶ Hussain, "China Pakistan Economic Corridor," 14.

In addition, CPEC will help China secure the future supply routes of energy and trade goods. Gwadar, situated closer to the Strait of Hormuz—which channels around one third of the world’s oil trade—can address energy security concerns of China as the world’s largest oil importer.¹⁶⁷ CPEC offers an economical and secure alternative transit route connecting China to the Indian Ocean through Gwadar Port, thus avoiding the risks of bad weather and pirates as well as overcoming the “Malacca Dilemma.” As China imports about 80–85 percent of its oil through the Strait of Malacca—the world’s second busiest waterway—it could possibly become a choke point in the long run. This potential problem could arise due to the competing interests of the various regional and global players, including China, in the South China Sea.¹⁶⁸ CPEC thus will reduce China’s vulnerability and provide an alternate route for the increased demand on fuels that would have been shipped through the Strait of Malacca. Figure 2 explains the existing maritime route and proposed CPEC route.

¹⁶⁷ Bhattacharjee, “China Pakistan Economic Corridor (CPEC),” 5.

¹⁶⁸ Markey and West, “Behind China’s Gambit in Pakistan,” 2; Ali, “China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration,” 1.

Figure 2. CPEC Route and Existing Maritime Route¹⁶⁹



Likewise, with CPEC, China aims to address the internal security concerns in its restive western region of Xinjiang through economic development.¹⁷⁰ Gwadar is the closest sea port to its landlocked western region, and Beijing realizes that substantial investment and trade activities will promote economic growth and stability, thus alleviating socioeconomic disparity in the region.¹⁷¹ China thus adopted its “Look West Policy” to develop its broader western territories. Xinjiang serves as a key player in the implementation of this policy as the approach envisages opening up the west of the country by connecting it economically and culturally with its six Central and South Asian Muslim majority neighbors, including Kazakhstan, Kyrgyzstan, Turkmenistan, Tajikistan, Afghanistan, and Pakistan. For China, a positive external regional

¹⁶⁹ Source: “China’s New Silk Road: What’s In It for Pakistan?” *Dawn News*, April 20, 2015, <https://www.dawn.com/news/1177116>.

¹⁷⁰ Ritzinger, “The China-Pakistan Economic Corridor,” 2.

¹⁷¹ Bhattacharjee, “China Pakistan Economic Corridor (CPEC),” 2; Markey and West, “Behind China’s Gambit in Pakistan,” 3.

environment thus created will contribute to managing its domestic goals in the western region.¹⁷² Besides peace and economic stability in the western region, Gwadar port offers China an advantageous position in the energy rich Caspian Region. The corridor provides an important trade route to link Xinjiang to the energy rich Central Asian countries through Gwadar port for energy and trade exchange.¹⁷³ According to the International Monetary Fund, the trade between China and the five central Asian states is already expanding rapidly since 2000, and had reached the US\$50 billion mark in 2013.¹⁷⁴

Moreover, China believes in the policy of non-interference and constructive engagement in the region by giving priority to building relations with its neighbors and developing countries. The completion of CPEC will help to enhance China's credibility as the development partner and non-interfering friend besides demonstrating China's commitment to the OBOR initiative and completing other connectivity projects.¹⁷⁵ The positive image will also provide an opportunity to China's private sectors and businessmen to access the world's fastest growing economies via Pakistan.¹⁷⁶

On the external front, however, some view the CPEC as more than an effort to strengthen bilateral ties and blame China for using Pakistan in advancing its power ambition in the region.¹⁷⁷ Describing the project goals, Louis Ritzinger identifies three factors as motivational forces for China's investment in Pakistan: providing economic support to its seasoned partner, promoting trade, and building networks to the west in

¹⁷² Shahid Javed Burki, and Iftekhhar Ahmed Chowdhury, "China's 'Look West' Policy," Institute of South Asian Studies (ISAS), no. 134, September 6, 2011, https://www.files.ethz.ch/isn/132827/ISAS_Insight_134_-_Email_-_China's_Look_West_Policy_07092011133315.pdf.

¹⁷³ Saima Perveen and Jehanzeb Khalil, "Gwadar-Kashgar Economic Corridor: Challenges and Imperatives for Pakistan and China," *Journal of Political Studies* 22, no. 2 (2015): 351–366, http://pu.edu.pk/images/journal/pols/pdf-files/1%20-%20SAIMA_v22_2_wint2015.pdf.

¹⁷⁴ Charles Clover and Lucy Hornby, "China's Great Game: Road to a New Empire," *Financial Times*, October 12, 2015, <https://www.ft.com/content/6e098274-587a-11e5-a28b-50226830d644>, accessed February 10, 2017.

¹⁷⁵ Ramay, "CPEC: A Chinese Dream Being Materialized Through Pakistan," 7.

¹⁷⁶ Irshad, Xin, and Arshad, "One Belt and One Road," 203.

¹⁷⁷ Ritzinger, "The China-Pakistan Economic Corridor," 3.

order to expand its influence.¹⁷⁸ Through Gwadar Port, China can watch the Sea Lines of Communications (SLOC) as around 60 percent of Chinese energy supplies originate from the Persian Gulf and move along this passage. At the same time, China can monitor the U.S. maritime activities in the region.¹⁷⁹ Even so, China has denied any designs of its military expansion. Many experts, though, question China's naval ability to contest the U.S. naval might, thus making such a military expansion unlikely for China at this stage.¹⁸⁰ This argument is further looked into in the next chapter.

2. Significance for Pakistan

CPEC is equally important to Pakistan for getting out of the current economic stagnation. The projects worth US\$46 billion offer a special opportunity to Pakistan to address some of the main roadblocks to its economic growth such as the energy crisis, poor communication infrastructure, and narrow foreign investment. There is a broad consensus across the society on the enormous potential of CPEC for promoting economic growth in the country.¹⁸¹

Pakistan suffers from a persistent energy crisis, which affects the overall economic growth of the country. The energy shortage is responsible for the loss of about 2 percent of GDP annually.¹⁸² The supply and demand gap will increase even further given the country's existing population growth of about 2 percent annually, which will worsen unemployment caused by scarce outlets for productivity.¹⁸³ Some US\$34 billion in investment to establish new power plants will revive existing industry such as textile and agricultural activity, and thus contribute to alleviating the strained socioeconomic conditions of the people.¹⁸⁴ Out of the 21 new energy projects, 14 "early harvest" coal

¹⁷⁸ Ritzinger, "The China-Pakistan Economic Corridor," 2.

¹⁷⁹ Javaid and Javaid, "Strengthening Geo-Strategic Bond of Pakistan and China," 137.

¹⁸⁰ Hussain, "China Pakistan Economic Corridor," 14.

¹⁸¹ Esteban, "The China-Pakistan Corridor."

¹⁸² Aziz, "Pakistan's Power Crisis - The Way Forward," 1.

¹⁸³ Markey and West, "Behind China's Gambit in Pakistan," 3.

¹⁸⁴ Esteban, "The China-Pakistan Corridor," 2.

and renewable energy projects will generate 10,400 megawatts of power by 2018, amply meeting the exceeding demand of about 4,500 megawatts on average.¹⁸⁵

Poor communication infrastructure is yet another area responsible for slow economic growth. According to the Planning Commission of Pakistan, the poor performance of the transport sector causes a loss of about 4 to 6 percent of GDP to the state's economy every year.¹⁸⁶ With around US\$12 billion devoted to infrastructure, transport, and communication under CPEC, a greater connectivity is expected to create new opportunities for development in Pakistan.¹⁸⁷

Moreover, Pakistan would benefit from the Special Economic Zones (SEZ) along the planned routes. These SEZs would become competing places for manufactured goods, agriculture, and the services sector, catering to the ever rapidly expanding urbanization process. The different zones are expected to aim at specific products and amenities in a particular area, with a focus on utilizing available local raw material and labor force.¹⁸⁸ Likewise, by drawing investments into more export-oriented industries and internationally competitive manufactured goods, Pakistan will be able to turn the existing trade deficit in its favour. Through improvement in communications, Pakistan can thus effectively integrate its domestic market as well as explore landlocked neighboring markets through exports.¹⁸⁹

As CPEC routes pass through all the four provinces, the backward and remote areas, especially Balochistan, KPK, and Gilgit-Baltistan, would receive progressive development. As Balochistan is rich in mineral resources, the mining industry is likely to grow. Likewise, the region of Gilgit-Baltistan known for its fresh fruits, such as cherries, apples, and apricots, would be able to export the perishable items by making use of the upgraded transport infrastructure. Furthermore, it would lead to savings in transportation costs. Similarly, development of the infrastructure will help boost the tourism sector as

¹⁸⁵ Nazir, "Macro and Micro Dividends of CPEC."

¹⁸⁶ Esteban, "The China-Pakistan Corridor," 2.

¹⁸⁷ Ali, "China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration," 1.

¹⁸⁸ Nazir, "Macro and Micro Dividends of CPEC."

¹⁸⁹ Ibid.

the region houses five of the 14 world's highest mountain peaks (above 8,000 meters), including the second highest peak K-2 and Nanga Parbat, "the killer mountain."¹⁹⁰

CPEC's promotion of socioeconomic development would bring peace and stability to the country in general and specifically to the restive and backward province of Balochistan, making it more economically viable and sustainable. The separatist and insurgent groups have been using resource exploitation and deprivation slogans as a major tool to rally public support for sub-nationalism. The development of basic communication infrastructure will facilitate the socioeconomic boost of the local people by supporting micro, medium, and small sized industries. In turn, this boost promises to reduce unemployment and improve the literacy rate and living conditions of the local populace.¹⁹¹ The improved socioeconomic conditions of common Baloch citizens would also help in reducing the resource monopoly of the Sardars. In addition to addressing unemployment and redressing public grievances through socioeconomic uplift, the investment would also help generate state resources to further improve law and order by capacity enhancement of the law enforcement institutions.¹⁹²

Completion of CPEC is likely to improve Pakistan's economic, commercial, and geostrategic environment. As the proposed Chinese investment more than doubles all foreign direct investment in Pakistan since 2008,¹⁹³ it will attract international investors in Pakistan. This will help to improve the perceived external image of the country, an image that is not always in line with current situations and tends to be more negative than merited by actual conditions and one that causes a psychological obstacle to the flows of foreign investment.¹⁹⁴ According to the Pakistan Economic Survey, the industrial sector has already witnessed a notable growth of 6.8 percent compared to 3.62 percent increase

¹⁹⁰ "Adventure Tourism," Pakistan Tourism Development Corporation, accessed February 12, 2017, http://www.tourism.gov.pk/adventure_tourism.html.

¹⁹¹ Perveen and Khalil, "Gwadar-Kashgar Economic Corridor," 360.

¹⁹² Markey and West, "Behind China's Gambit in Pakistan," 3.

¹⁹³ Ibid.

¹⁹⁴ Esteban, "The China-Pakistan Corridor," 2.

in 2014–15, a record high in last eight years.¹⁹⁵ The sound industrial and competitive infrastructure base in place in addition to low labor costs is likely to attract foreign investors looking for a cheaper market to manufacture goods for export to developed countries.

On the regional level Pakistan could play a pivotal role for regional trade due to its geostrategic location. Situated at the crossroads of supplying and consuming markets of the oil rich Middle East, the states of the Central Asia Republics (CAR), and China, the CPEC offers the best opportunity to grow its trade with Central and South Asia, including India.¹⁹⁶ With the increasing significance of economic interdependence and regional connectivity, Pakistan can emerge as an important economic hub in the region. With the regional trade mechanism already in place—such as the quadrilateral transit trade agreement between Pakistan, Kazakhstan, Kyrgyzstan, and China, and the Afghanistan-Tajikistan transit agreements—to facilitate regional integration; Gwadar would transform Pakistan’s economic growth. Furthermore, Gwadar will act as a gateway for Central Asian and South Asian countries for marine transport, trade, and investment.¹⁹⁷ Besides serving as a gateway and thus realizing huge transit revenues, Pakistan can meet its energy needs from resource rich Central Asia via Afghanistan. Similarly, through improved infrastructure, CPEC can provide landlocked countries the shortest access, as compared to Iran and Turkey, to transport their goods and power resources to the regional and world markets. In this way, CPEC will promote regional economic and trade connectivity as envisaged by its creators.¹⁹⁸

Thus, CPEC, which is a bilateral agreement at the moment, has the potential to become a multilateral project as the corridor has the prospective road extensions to link Afghanistan, Iran, and India for regional integration. As the trade and economic benefits spread in the region among China, Pakistan, Afghanistan, Iran, India, and the Central Asian States, an enhanced interdependency would develop; CPEC has the potential to

¹⁹⁵ Nazir, “Macro and Micro Dividends of CPEC.”

¹⁹⁶ Ali, “China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration,” 2.

¹⁹⁷ Lim, “The China-Pakistan Economic Corridor One Year On – Analysis.”

¹⁹⁸ Ali, “China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration,” 2.

bring peace and prosperity over time because each regional state will have a direct stake in the others' stability.¹⁹⁹ According to Charles Clover and Lucy Hornby, "the new Silk Road is set to become the largest program of economic diplomacy since the U.S.-led Marshall Plan for postwar reconstruction in Europe, covering dozens of countries with a total population of over 3 billion people."²⁰⁰

As CPEC is at a very early stage of implementation, it is impossible to confirm at present the actual impact of the project. Yet, in the long run, the US\$46 billion package of projects is certain to have a positive effect on Pakistan's economy as well as creating an improved geostrategic environment. The improved infrastructure and energy self-reliance would promote socioeconomic development and enrichment of undeveloped areas.²⁰¹

Though CPEC offers countless opportunities to Pakistan and other regional states, the regional dynamics can limit or expand these opportunities. The next chapter examines the potential challenges and risks in the implementation of the project.

¹⁹⁹ Irshad, Xin, and Arshad, "One Belt and One Road," 204.

²⁰⁰ Clover and Hornby, "China's Great Game: Road to a New Empire."

²⁰¹ Christian Wagner, "The Effects of the China-Pakistan Economic Corridor on India-Pakistan Relations," German Institute for International and Security Affairs, SWP Comments, April 25, 2016, http://www.swp-berlin.org/fileadmin/contents/products/comments/2016C25_wgn.pdf.

IV. ANALYSIS OF THE CHALLENGES

Despite the significance of CPEC for the region in general and for China and Pakistan in particular, the project is also confronted with various internal and external challenges. The success of the project particularly depends on regional geopolitical issues, especially India's position on the project and Afghanistan's instability. Internally, Pakistan must also deal with security challenges and political impediments, which may hinder the execution of the project. This chapter assesses both the external regional geopolitical dynamics as well as the potential internal and domestic threats and the impediments in Pakistan itself that can affect the implementation of the project.

A. REGIONAL GEOPOLITICAL DYNAMICS

Many security analysts have expressed their concerns that various regional factors may affect the implementation of the CPEC project. These challenges range from the prevailing regional environment in Afghanistan to competing interests of immediate neighbors like India and Iran.²⁰² The unstable situation in Afghanistan, India's suspicions about the initiative, as well as U.S. and Iranian concerns, can affect the mega-project negatively. In this regional context, this thesis section identifies and explains these challenges and conflicting interests.

1. India

According to security analysts in Pakistan, India generally views its relationship with Pakistan as a zero-sum game and, thus, it resists any kind of advantage to Pakistan.²⁰³ More specifically, India's main objection to CPEC appears to concern the section of corridor that runs through Gilgit-Baltistan. Although KKH—the northern section of the corridor route—already passes through Gilgit-Baltistan, India has expressed its concerns over the CPEC route, which India identifies as Pakistan Occupied Kashmir, part of the disputed territory of Jammu and Kashmir that India claims as part of

²⁰² Ritzinger, "The China-Pakistan Economic Corridor," 3; Akber Ali, "China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration."

²⁰³ Hussain, "China Pakistan Economic Corridor," 18.

its territory.²⁰⁴ S.D. Muni, a former Indian ambassador and special envoy to the UN, exemplified these accusations when he stated, “What’s in it for India? More so when the corridor is conceived and planned at the cost of India’s interests, claims, and political sensitivities.”²⁰⁵ India fears that to provide the CPEC project with legal cover, Pakistan is looking to upgrade the constitutional status of Gilgit-Baltistan and legally admit the region as the fifth province of Pakistan.²⁰⁶ Nevertheless, Pakistan has not yet affirmed the legal integration of Gilgit-Baltistan into Pakistan as it may influence its international position on the Kashmir issue.²⁰⁷ Still, amid these concerns, the Indian leadership has regularly protested the project and Indian Prime Minister Modi even urged the Chinese President during the former’s visit to China to abandon the plan.²⁰⁸ Likewise, Sushma Swaraj, Indian Foreign Minister, termed the project “unacceptable” as it passes through Indian-claimed territory.²⁰⁹

Moreover, Indians view Chinese firms’ involvement in development projects in the Pakistani part of Kashmir as Chinese support of Pakistan’s claim on the territory.²¹⁰ Thus, India is worried that CPEC projects in Gilgit-Baltistan will give legitimacy to “Pakistan’s illegal occupation of these areas.”²¹¹ Likewise, some Indian analysts claim that several thousand Chinese personnel working on these projects belong to the

²⁰⁴ Bhattacharjee, “China Pakistan Economic Corridor (CPEC),” 2; Siegfried O. Wolf, “The China-Pakistan Economic Corridor: An Assessment of Its Feasibility and Impact on Regional Cooperation,” *South Asia Democratic Forum (SADF)* Brussels, Belgium, Working Paper no. 1, June 28, 2016, ISSN 2506–8199.

²⁰⁵ Debasish Roy Chowdhury, “Pakistan Happy to Aid in China’s Quest for Land Route to the West; India, Not So Much.” *South China Morning Post*, last modified November 19, 2013, <http://www.scmp.com/business/commodities/article/1359761/pakistan-happy-aid-chinas-quest-land-route-west-india-not-so>.

²⁰⁶ Chinese Pressure Sees Pakistan Mull Constitutional Status of Gilgit-Baltistan, *Express Tribune*, January 7, 2016, <https://tribune.com.pk/story/1023523/chinese-pressure-sees-pakistan-mull-constitutional-status-of-gilgit-baltistan/>.

²⁰⁷ Jawad Falak, “CPEC: Internal Significance and Challenges,” *Stratagem*, <http://www.stratagem.pk/strategic-pulse/cpec-internal-significance-and-challenges/>.

²⁰⁸ Abid and Ashfaq, “CPEC: Challenges and Opportunities for Pakistan,” 158.

²⁰⁹ “Chinese Pressure Sees Pakistan Mull Constitutional Status of Gilgit-Baltistan,” *Express Tribune*.

²¹⁰ Anilesh S. Mahajan, “Worrying Signals; China’s Growing Investments in Pakistan Could Prove to be a Headache for India,” *Business Today*, May 24, 2015, <http://www.businesstoday.in/magazine/focus/china-investments-in-pakistan-rising-headache-for-india/story/218868.html>.

²¹¹ Lim, “The China-Pakistan Economic Corridor One Year On – Analysis.”

engineering corps of the People's Liberation Army. India views the presence of these personnel as another potential military threat to India's security interests—and considers it as a Chinese expansionist agenda in the region.²¹²

Fearing Chinese investment in the region through CPEC, India has propagated false accusations of territorial frictions and regional stability issues linked with the project.²¹³ Conservative political and security experts in India view the CPEC investment as having longer-term negative geopolitical implications for India.²¹⁴ India views the project as a long-term Chinese strategy because secure access to the Indian Ocean through operational control over Gwadar port would reinforce Chinese influence in the region and contain Indian influence in South Asia besides its increased leverage on Pakistan.²¹⁵

Second, the Sino-Pakistan relationship presents a challenge to India's race to become a regional hegemon. India views the project, especially Gwadar port, with suspicion in regards to its effect on the maritime balance of power in the Indian Ocean.²¹⁶ Beyond CPEC and the subsequent possibility of Gwadar port becoming a Chinese naval base, the growing Sino-Pakistan security cooperation has become a source of concern for India. Parallel to the CPEC project, China has assured Pakistan of a supply of eight submarines—around US\$4 billion to \$5 billion in military hardware.²¹⁷ This deal further reinforces both Indian and U.S. apprehensions about Gwadar being utilized as a major naval base to expand China's blue-water fleet in the Arabian Sea, in addition

²¹² Monika Chansoria, "China Makes Its Presence Felt in Pak Occupied Kashmir," *Sunday Guardian*, accessed April 14, 2017, <http://www.sunday-guardian.com/analysis/china-makes-its-presence-felt-in-pak-occupied-kashmir>.

²¹³ Maryam Nazir, "Macro and Micro Dividends of CPEC," Islamabad Policy Research Institute, November 1, 2016, <http://www.ipripak.org/macro-and-micro-dividends-of-cpec-efforts-of-regional-and-international-players-to-disrupt-the-development-in-the-region-its-ramifications-and-rectifications>.

²¹⁴ Markey and West, "Behind China's Gambit in Pakistan," 7.

²¹⁵ Bhattacharjee, "China Pakistan Economic Corridor (CPEC)," 10.

²¹⁶ Christopher Ernest Barber, "The Pakistan-China Corridor: A New Project Will Give Pakistan the Tools of Globalization. Will It Use Them?," *Diplomat*, February 27, 2014, <http://thediplomat.com/2014/02/the-pakistan-china-corridor/>

²¹⁷ Jack Detsch, "China's Grand Plan for Pakistan's Infrastructure," *Diplomat*, April 21, 2015, <http://thediplomat.com/2015/04/chinas-grand-plan-for-pakistans-infrastructure>.

to becoming a regional economic hub. Thus, India considers the project as a Chinese strategic move to counter, if not disrupt, the Indo-U.S. strategic cooperation.²¹⁸ Moreover, India fears the encirclement of India by the so-called String of Pearls strategy,²¹⁹ through China's involvement in the development of a series of strategic naval ports in the region, such as Hambantota in Sri Lanka, Sittwe in Myanmar, and Chittagong in Bangladesh.²²⁰

Finally, India views the project as a threat to its sovereignty. According to Indians, China does not allow any kind of development project in Arunachal Pradesh, considering it a disputed area; China has even protested the Indian Prime Minister visiting it. Some experts argue that if India openly supports the Chinese project, India's sovereign position will be endangered in these regions, including the Aksai Chin, to which China lays claim.²²¹

Nevertheless, China claims that its regional development policy is based on the concept of mutual benefit—that is, win-win cooperation with its partners as well as regional states—to share the benefits of China's economic growth.²²² According to the Chinese analysts, the strategy “is guided by the concept of the ‘Three Nos’: China will not interfere in the internal affairs of other nations; China does not seek to increase its so-called ‘sphere of influence’; and, China does not strive for hegemony or dominance.”²²³

India's fear of isolation and growing Chinese influence in the region, especially its desire to control Central Asia, has driven India to strive to extend its own sphere of influence in the region. To achieve this end, energy-hungry India is investing in Iran's

²¹⁸ Nazir, “Macro and Micro Dividends of CPEC.”

²¹⁹ Barber, “Pakistan-China Corridor.”

²²⁰ Chowdhury, “Pakistan Happy to Aid in China's Quest for Land Route to the West; India, Not So Much.”

²²¹ Bhattacharjee, “China Pakistan Economic Corridor (CPEC),” 11.

²²² Shi Ze, “One Road & One Belt & New Thinking with Regard to Concepts and Practice,” Presentation at the 30th Anniversary Conference of the Schiller Institute, Frankfurt, Germany, accessed April 20, 2017, <http://newparadigm.schillerinstitute.com/media/one-road-and-one-belt-and-new-thinking-with-regard-to-concepts-and-practice/>.

²²³ Wolf, “The China-Pakistan Economic Corridor.”

port of Chabahar, 72 kilometers west of Gwadar port,²²⁴ and plans to build a north-south corridor through Iran and Afghanistan. The port will provide India an alternate route and a gateway to access Afghanistan and the CAR states, since Pakistan has refused an Indian proposal, raised through the South Asian Association for Regional Cooperation platform, to allow Indian transporters a transit route to Afghanistan through Pakistan.²²⁵ To this end, the Modi government has developed close security and economic ties with the Northern Alliance-dominated government in landlocked Afghanistan through soft investments in Afghanistan. It has so far invested US\$100 million to build a 220-kilometer-long road connecting Afghanistan's Nimroz province with Chabahar.²²⁶ India perceives the growing ties between China and Pakistan and the heavy investment in Gwadar by China as an obstacle to its ambitions to reach Afghanistan and the CAR states for a possible trade connection, bypassing Pakistan.²²⁷ Hence, India believes that its influence in Chabahar port will balance out the Chinese presence in the Gwadar port and the Arabian Sea, and will offer easy access to landlocked Afghanistan and the CAR states into the bargain.²²⁸ Noting the easing of sanctions on Iran, Indian leadership feels an urgency to accelerate the plan and reach further agreements with Iran and Afghanistan, apparently obsessed by CPEC.²²⁹

The Pakistani leadership believes that India is engaged in anti-state activities in Pakistan, especially to disrupt the CPEC project. Disconcerted and frustrated, India has intensified its financial and military support to anti-state elements, especially through Baloch insurgents and other terrorist groups, to escalate violence in Balochistan and Karachi to disrupt the CPEC project.²³⁰ In fact, the Pakistani security forces' arrest in Balochistan of Kulbhushan Yadav, an Indian naval officer serving in the premier Indian

²²⁴ Fazil, "5 Reasons Gwadar Port Trumps Chabahar."

²²⁵ Mahajan, "Worrying Signals."

²²⁶ Nazir, "Macro and Micro Dividends of CPEC."

²²⁷ Abid and Ashfaq, "CPEC: Challenges and Opportunities for Pakistan."

²²⁸ Nazir, "Macro and Micro Dividends of CPEC."

²²⁹ S. Mudassir Ali Shah, "Chabahar vs. Gwadar," *Dawn News*, last modified April 3, 2017, <https://www.dawn.com/news/1181003>.

²³⁰ Esteban, "The China-Pakistan Corridor"; Hussain, "China Pakistan Economic Corridor."

intelligence agency, in March 2016, proved Pakistan's claims.²³¹ The Indian spy, who has recently been sentenced to death for espionage, has confessed to Indian involvement in the destabilization of Balochistan, Karachi, and KPK. The recent confession of the former Spokesman of Tehreek-e-Taliban Pakistan (TTP) and its splinter group Jamaat-ul-Ahrar (JuA) further reinforces these claims. Ehsan Ullah Ehsan, who surrendered to the security forces on April 16, 2017, has revealed the involvement of the Indian spy agency RAW in funding and supporting the terrorist groups to destabilize the CPEC project and Pakistan as a whole.²³² A number of times, Pakistan's leadership has pointed to RAW's involvement in terrorist attacks in Karachi and Balochistan. Pakistan's Army Chief has openly blamed RAW for destabilizing the project.²³³ Hence, in the current regional environment, it appears that India will continue as a spoiler until it is proactively engaged and integrated into the regional economic framework.

2. Afghanistan

While a stable Afghanistan is essential for the CPEC project to succeed, the security situation in Afghanistan has deteriorated with the withdrawal from Afghanistan of a majority of the International Security Assistance Force under NATO in 2016.²³⁴ The political reconciliation process has not progressed either due to the Taliban's refusal to engage in the Quadrilateral Coordination Group—comprising China, Pakistan, the United States, and Afghanistan—after the killing of its leader, Mullah Mansoor, in a drone attack by U.S. forces in May 2016.²³⁵ The spillover effects of this persistent instability could undermine the security environment in both Pakistan and the western regions of China.²³⁶ Pakistan and Afghanistan under the Quadrilateral Coordination Group, therefore, must work together to find a practical solution to the problem.

²³¹ Nazir, "Macro and Micro Dividends of CPEC."

²³² "Former TTP, JuA Spox Claims Terrorist Organizations Being 'Used' by India, Afghanistan," *Dawn News*, updated April 27, 2017, <https://www.dawn.com/news/1329364>.

²³³ Lim, "The China-Pakistan Economic Corridor One Year On – Analysis."

²³⁴ Ali, "China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration," 3.

²³⁵ "Afghan Taliban's Mullah Mansoor 'Killed in U.S. Strike,'" *Aljazeera News*, May 22, 2016, <http://www.aljazeera.com/news/2016/05/taliban-leader-killed-drone-strike-160521204020111.html>.

²³⁶ Ali, "China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration," 3.

A better understanding between Pakistan and Afghanistan on regional security and geo-economic issues is vital for the success of CPEC, guarding the project from local and regional state and non-state actors. However, Pakistan believes that its efforts to rebuild trust with Afghanistan government are being greatly maligned by the Northern Alliance—a dominant party in the current Afghan national unity government—at the behest of India.²³⁷ Pakistani security officials see India's RAW and Afghanistan's National Directorate of Security (NDS) behind terror activities in Pakistan to delay and disrupt CPEC by creating instability. Following the terrorist attack at the police training center in Quetta—provincial capital of Balochistan and a key node along the CPEC route—killing 60 cadets in October 2016, Pakistan's National Security Adviser apprised the U.S. Ambassador David Hale on the involvement of RAW and NDS and asked for U.S. help in breaking terrorist groups and the NDS-RAW nexus.²³⁸

Likewise, improvement of border security between Pakistan and Afghanistan is essential to CPEC, as a porous and unmanaged border is a constant threat to the security situation in neighboring KPK and Balochistan provinces. Afghanistan's Kunar and Nuristan provinces, bordering Pakistan, harbor various local and global terrorist groups, including TTP, Al-Qaeda, the Islamic State (ISIS), and the Uighur militants' umbrella group, The East Turkestan Islamic Movement (ETIM).²³⁹ The Chinese Uighur militants from the Xinjiang province—in collaboration with the TTP—present a key threat to Chinese interests in Pakistan. The Uighur militants consider themselves closer to the Central Asian states, thus demanding from China a separate 'East Turkistan' state.²⁴⁰ Besides its role in global jihad under Al-Qaeda and ISIS, ETIM's primary focus is to destabilize the Chinese government in western China and target Chinese interests outside, in particular, Chinese people and projects in the Pakistan-Afghanistan region. Since ISIS has already declared jihad against China due to the latter's alleged ill-treatment of its

²³⁷ Hussain, "China Pakistan Economic Corridor," 19.

²³⁸ Sanaullah Khan, "RAW, NDS Patronizing Terror Groups in Afghanistan, National Security Adviser Tells U.S. Envoy," *Dawn News*, October 26, 2016, <https://www.dawn.com/news/1292399>.

²³⁹ Abid and Ashfaq, "CPEC: Challenges and Opportunities for Pakistan," 156.

²⁴⁰ Wolf, "The China-Pakistan Economic Corridor."

Uighur Muslim population, the CPEC project may also face a threat from global jihadist networks operating from neighboring Afghanistan. Considering the terrorists' links with the Taliban in Pakistan's tribal areas, these groups are a constant threat to the CPEC project, especially in the northern regions of Pakistan bordering Afghanistan. In a number of incidents, these terrorist groups have already attacked and kidnapped Chinese workers and engineers in the past and warned to further expand their operations against Chinese interests.²⁴¹

Despite Pakistan's repeated requests, Indian influence prevents Afghanistan from taking action against these terrorists groups. Chuck Hagel, the former U.S. defense secretary, during a talk on Afghanistan at Cameron University in Oklahoma in 2011 stated, "India for some time has always used Afghanistan as a second front, and India has over the years financed problems for Pakistan on that side of the border. And you can carry that into many dimensions, the point being [that] the tense, fragmented relationship between Pakistan and Afghanistan has been there for many, many years."²⁴² The statement supports Pakistan's claims.

Following a wave of terrorist attacks in February this year, killing more than 100 citizens, Pakistani officials announced plans to erect a fence along the Afghan border, commencing along the eastern Afghan provinces of Nangarhar and Kunar, in an attempt to stop terrorists from crossing the border. During his visit to the Pakistan-Afghanistan border on March 25, 2017, the Pakistan Army Chief expressed that, "A better managed, secure and peaceful border is in mutual interest of both brotherly countries who have given phenomenal sacrifices in war against terrorism."²⁴³ Pakistan wants a peaceful and stable Afghanistan and expects Afghanistan to ensure that foreign forces do not exploit the destabilized situation in Afghanistan and its soil for disruptive activities against Pakistan. As in the post NATO withdrawal scenario, proxy wars in destabilized

²⁴¹ Ritzinger, "The China-Pakistan Economic Corridor," 3.

²⁴² Dean Nelson, "Chuck Hagel Criticized for India-Afghanistan Remarks," *Telegraph*, February 27, 2013, <http://www.telegraph.co.uk/news/worldnews/asia/india/9897707/Chuck-Hagel-criticised-for-India-Afghanistan-remarks.html>.

²⁴³ Joseph Hincks, "Pakistan Has Started Fencing off Its Border with Afghanistan," *Time*, March 26, 2017, <http://time.com/4713582/pakistan-afghanistan-border-fence/>.

Afghanistan can have security implications for the region that will prove detrimental to the development projects and the regional economic integration.

For China, security and stability in Afghanistan are equally important for its massive investment in the region. China is particularly concerned as a destabilized Afghanistan can affect China's western Xinjiang province, a key stakeholder in the materialization of CPEC. China is thus playing a key role in facilitating dialogue between the Taliban and the Afghan government under the quadrilateral forum. China has already received two Taliban delegations, including the hosting of a secret meeting in May 2015 between representatives of the two parties in Urumqi, China. Along with the United States, it has also participated in Afghan government-Taliban talks held in Murree, Pakistan, in July 2015.²⁴⁴ Besides its economic investment, Beijing's decision to play a greater political and security role in Afghanistan also signifies the gravity of the situation as direct involvement with any political settlement in Afghanistan contrasts with China's declared policy of non-interference in another state's matters.²⁴⁵

Lately, China has been engaged in efforts to strengthen the regional cooperation. To promote peace and stability in Afghanistan, it hosted the Fourth Ministerial Conference of the Heart of Asia-Istanbul Process in Beijing in October 2014, aimed at promoting peace and cooperation between Afghanistan and its neighbors.²⁴⁶ Moreover, China also plays its part in easing tensions and removing discords between Pakistan and Afghanistan to mutually reap the benefits of CPEC.²⁴⁷

Experts suggest that China expects Pakistan to play a central role in supporting political reconciliation in Afghanistan. It was publicly expressed by President Xi during

²⁴⁴ Edward Wong and Mujib Mashalmy, "Taliban and Afghan Peace Officials Have Secret Talks in China," *New York Times*, May 25, 2015, <https://www.nytimes.com/2015/05/26/world/asia/taliban-and-afghan-peace-officials-have-secret-talks-in-china.html>; "Taliban and Afghan Government Hold Talks in Pakistan," *Aljazeera*, July 8, 2015, <http://www.aljazeera.com/news/2015/07/taliban-afghan-government-talks-150708052742177.html>.

²⁴⁵ Esteban, "The China-Pakistan Corridor," 3.

²⁴⁶ Muhammad Arif, "Fourth Ministerial Conference of Heart of Asia-Istanbul Process Held in Beijing, China," *Nihao-Salam: Pakistan-China Institute promoting China Pakistan Economic Corridor*, October 31, 2014, <http://www.nihao-salam.com/news-detail.php?id=NzA2Mw>.

²⁴⁷ Hussain, "China Pakistan Economic Corridor," 19.

his visit to Pakistan that “China supports Pakistan playing a constructive role on the Afghanistan issue and will work with Pakistan to advance the reconciliation process and smooth transition in Afghanistan.”²⁴⁸

3. Iran

Iran’s initial response to CPEC indicated that it was apprehensive about the development of Gwadar as a deep-sea port and considered the project as a rival to its Chabahar port in the mouth of the Strait of Hormuz, built with Indian assistance.²⁴⁹ Partially in response to Gwadar’s proposed development, India, Iran, and Afghanistan signed an agreement in May 2016, forming a trilateral framework to expand Chabahar as a strategic port with India’s investment of around US\$500 million.²⁵⁰ The project would give all three countries an alternate connection, bypassing Pakistan, for regional trade and access to the landlocked countries of Central Asia.²⁵¹

Nevertheless, Iran understands the significance of eastward orientation to strengthen regional cooperation in addition to the enormous potential of cooperation that the CPEC project offers. The lifting of sanctions as a result of the U.S.-Iran nuclear deal and the opening up of Iran in international trade and relations also bring new prospects in Iran-Pakistan relations. In May 2016, speaking on Pakistan-Iran relations, Iran’s Ambassador to Pakistan said, “We are ready for any rapprochement between regional countries which directly impact the interests of the people of our countries. Trade and business is business, and politics is politics. We should separate them.”²⁵² Consequently, Iran has shown its desire to be part of CPEC, expressed by the Iranian President during a

²⁴⁸ Thomas Zimmerman, “The New Silk Roads: China, the U.S., and the Future of Central Asia,” Center on International Cooperation, New York University, October 2015, http://cic.nyu.edu/sites/default/files/zimmerman_new_silk_road_final_2.pdf.

²⁴⁹ Nazir, “Macro and Micro Dividends of CPEC.”

²⁵⁰ “Iran, India, Afghanistan Sign Transit Accord on Chabahar Port,” *Dawn News*, May 23, 2016, <http://www.dawn.com/news/1260176>.

²⁵¹ Ibid.

²⁵² Mateen Haider and Mahnoor Bari, “Chabahar Not a Rival to Gwadar, Iranian Envoy Tells Pakistan,” *Dawn News*, updated May 27, 2016, <https://www.dawn.com/news/1261006>.

meeting with Pakistan's Prime Minister in September 2016,²⁵³ where both leaders acknowledged the significance of connectivity projects for regional progress.

These improved Pakistan-Iran relations would open several avenues of mutual cooperation, benefiting energy and trade and also paving the way for the construction of the much-awaited Iran-Pakistan gas pipeline. Furthermore, the proposal to link the Iran–Pakistan gas pipeline with China, which has been described as a “common interest” among the three countries,²⁵⁴ has made Iran's stakes in the CPEC project even higher. Similarly, China has frequently expressed its desire for greater cooperation with Iran on CPEC.²⁵⁵ It is expected that with the Iranians' participation, both countries will be able to enhance road and railway links to expand economic integration.²⁵⁶ In the meantime, Iran has already extended the invitation to Pakistan to join the Chabahar Port trilateral agreement and also assured Pakistan that “Chabahar is not a rival to Gwadar.”²⁵⁷ Hence, Chabahar and Gwadar ports could be associated as regional ports to further promote regional trade and integration.²⁵⁸

However, security analysts believe that Saudi-Iranian animosity could impede the improvement in Pakistan-Iran relations. In advancing any rapprochement with Iran, therefore, Pakistan must keep in mind the Saudis' attitude toward Iran besides Pakistan's special relations with Saudi Arabia. While Pakistan needs Iran to fulfil its energy requirements, Pakistan cannot risk alienating the Saudis by moving too close to Iran.²⁵⁹ Pakistan faces a delicate balancing act, especially against the backdrop of mounting Saudi-Iranian hostility in the Middle East.

²⁵³ Syed Sammer Abbas, “Iran Wants to be Part of CPEC, says Rouhani,” *Dawn News*, last modified September 22, 2016, <https://www.dawn.com/news/1285404>.

²⁵⁴ Falak, “CPEC: Internal Significance and Challenges.”

²⁵⁵ “China Welcomes Enhanced Cooperation with Iran on CPEC,” *Dawn News*, October 18, 2016, <https://www.dawn.com/news/1290724>.

²⁵⁶ Nazir, “Macro and Micro Dividends of CPEC.”

²⁵⁷ Haider and Bari, “Chabahar Not a Rival to Gwadar.”

²⁵⁸ Akber Ali, “China Pakistan Economic Corridor.”

²⁵⁹ Shamil Shams, “Can Iran's Rouhani Win Over Pakistan?” *Deutsche Welle*, March 24, 2016, <http://www.dw.com/en/can-irans-rouhani-win-over-pakistan/a-19138190>.

4. United States

Contrary to the common perception in Pakistan, the U.S. government has not opposed CPEC. Rather its desire to see the CPEC as a multilateral project is an encouraging sign. Speaking of the project, a U.S. State Department official stated, “The planned corridor is one we very much support and is aligned with a shared vision of regional economic connectivity. Fundamentally, we hope that in the end it will not only be Pakistan and China. We hope eventually that it will include other neighbors as well, particularly Afghanistan, where we and the Chinese are also making common efforts.”²⁶⁰

Still, the United States, aware of the perceived strategic ramifications of the CPEC project, views the corridor as having long-term risks. Thus, Chinese development of Gwadar port may face the U.S. government’s opposition as operational control of the port gives leverage to Chinese naval power in the Indian Ocean, a potential threat to the supremacy in the oceans that U.S. naval forces currently enjoy.²⁶¹ To deal with Chinese expansion in the region, the United States may be working on such policies as advancing its own New Silk Road Initiative, announced in 2011 to connect Central Asia to South Asia. The initiative is aimed at the regional integration of Afghanistan to support its economic growth.²⁶² Furthermore, to maintain its dominant position in the region, the United States is developing strategic ties with India. The Civilian Nuclear Agreement between India and the United States, signed by President Bush in 2006, and the growing U.S.-Indian strategic relationship in the last decade is evidence of the United States encouraging and supporting Indian naval power to counter the growing Chinese influence in the Indian Ocean.²⁶³

On the other hand, cooperation in Afghanistan has been one of the high points in U.S.-China bilateral relations in recent years. The United States fears Russia regaining its

²⁶⁰ Ahmad Rashid Malik, “All-Weather Friendship,” *Diplomatic Insight* 8, no 5 (2015): 13–15, <http://thediomaticinsight.com/wp-content/uploads/2015/06/Special-Supplement-on-Pakistan-China-Relations-All-Weather-Friendship-May-2015.compressed.pdf>.

²⁶¹ Markey and West, “Behind China’s Gambit in Pakistan,” 7; Ritzinger, “China-Pakistan Economic Corridor,” 3.

²⁶² Zimmerman, “The New Silk Roads: China, the U.S., and the Future of Central Asia.”

²⁶³ Hussain, “China Pakistan Economic Corridor,” 4; Javaid and Javaid, “Strengthening Geo-Strategic Bond of Pakistan and China,” 126.

control of its former states—the CAR states—in the post-NATO withdrawal scenario.²⁶⁴ Thus, to counter Russian influence in the region, the U.S. government seeks Chinese involvement and has repeatedly supported China’s positive role in Afghanistan.²⁶⁵ In March 2015, the U.S. Deputy Secretary of State, while addressing the Brookings Institute, stated that the U.S. government does not “see China’s involvement in Central Asia in zero-sum terms” and Chinese investment in infrastructure supplements the U.S. efforts.²⁶⁶ Regardless of U.S. intentions in the region, it is of mutual benefit for the United States and China to connect Afghanistan to China’s initiative of broader regional integration.

B. DOMESTIC CONSTRAINTS

On the domestic front, the internal security situation and the lack of political consensus in Pakistan are the two main challenges that may hinder the implementation of the CPEC project. If not handled appropriately, these impediments can affect national development and Pakistan’s economic integration in the region as envisioned for CPEC.

1. Internal Security

The major sources of security concern in Pakistan today are: religious extremism and radicalism perpetuated by Taliban militants in the tribal areas and KPK; sectarian and ethno-political violence in the metropolitan city of Karachi and Quetta; a nationalist insurgency in Balochistan, fueled and supported by foreign anti-state forces; and the law and order situation marred by acts of violence.²⁶⁷

Security analysts are apprehensive and express that extremists can target the CPEC-related projects to damage the country’s economy by fueling instability. Thus, it becomes crucial for Pakistan to secure the corridor, especially along the proposed western route that runs through the challenging regions of Balochistan and KPK. In addition to the external terrorist threats, various anti-state local terrorist groups such as

²⁶⁴ Perveen and Khalil, “Gwadar-Kashgar Economic Corridor.”

²⁶⁵ Zimmerman, “The New Silk Roads: China, the U.S., and the Future of Central Asia.”

²⁶⁶ Ibid.

²⁶⁷ Markey and West, “Behind China’s Gambit in Pakistan,” 3.

TTP, JuA, Lashkar-e-Jhangvi (LeJ), the Balochistan Liberation Army (BLA), the Balochistan Liberation Front (BLF), and the militant gangs affiliated with some political parties are potential threats and can target Chinese interests as a tactic to malign the Pakistani state.²⁶⁸ A single terrorist attack on the CPEC-related projects can have a negative impact and damage the security canvas.

Similarly, any instability in Balochistan, where major development projects are underway, including the Gwadar port, can hinder the execution of CPEC. The local populace of Balochistan has grievances about political and economic deprivation coupled with fear of outsiders coming in and turning native Balochs into a minority.²⁶⁹ This sense of economic exploitation and social and political exclusion among the common Baloch has been exploited as a tool by the local Sardars to rally support for several armed uprisings against the federal government.²⁷⁰ Baloch insurgents portray CPEC as an act of subjugation by the center to exploit the local resources.²⁷¹ They fear that outsiders' inflow to develop the Gwadar port in the name of economic development will further marginalize the native Baloch and disturb the province's demographic balance. Thus, these insurgents oppose any such developments and have attacked many Chinese nationals in the past.²⁷²

With foreign involvement and assistance, Baloch insurgents are, therefore, exploiting this situation and have warned China "to stay away from Gwadar."²⁷³ They have frequently blown up gas pipelines and trains in order to deter the non-local investors in general and Chinese developers in particular.²⁷⁴ In April 2015, Baloch militants killed at least 20 non-local laborers in the remote town of Turbat, Balochistan, a week prior to

²⁶⁸ Abid and Ashfaq, "CPEC: Challenges and Opportunities for Pakistan," 155.

²⁶⁹ Ali, "China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration," 4.

²⁷⁰ Robert G. Wirsing, "Baloch Nationalism and the Geopolitics of Energy Resources: The Changing Context of Separatism in Pakistan," U.S. Strategic Studies Institute, April 2008, http://www.globalsecurity.org/military/library/report/2008/ssi_wirsing.pdf.

²⁷¹ Wolf, "The China-Pakistan Economic Corridor."

²⁷² Markey and West, "Behind China's Gambit in Pakistan," 6.

²⁷³ Esteban, "The China-Pakistan Corridor," 2.

²⁷⁴ Abid and Ashfaq, "CPEC: Challenges and Opportunities for Pakistan," 152.

the Chinese president's visit to Pakistan.²⁷⁵ Media reports indicate tracks of foreign intelligence agencies working with insurgent groups to derail the project.²⁷⁶

Hence, it becomes a real challenge for Pakistan not only to root out these terrorist groups and their infrastructure but also to unearth their supporters and facilitators across the country. To this end, besides raising a Special Security Division exclusively for the protection of the Chinese workers and the corridor, the Pakistan military launched operation Zarb-e-Azb in June 2014,²⁷⁷ to wipe out the hotbeds of all local and foreign terrorist groups sheltered in the previously inaccessible portions of the country in North Waziristan bordering Afghanistan—all prior to the implementation of CPEC. Pakistan's former Chief of the Army Staff (COAS) General Raheel Sharif's statement that, "We [Pakistan's security forces] will not stop unless we achieve our end objective of a terror-free Pakistan," expresses this commitment.²⁷⁸

This operation already has considerably weakened these groups, with a substantial dip in the number of terrorist attacks in Pakistan. According to media reports, the country witnessed about a 65 percent decline in the number of terrorist attacks almost a year after its launch.²⁷⁹ The Pakistan Army has successfully demolished terrorists' sanctuaries in the western and northwestern frontier regions and has weakened the operational capacity of all local and foreign terrorist groups, including ETIM and Uighurs, in the recent past.²⁸⁰ The operation has been successful in the denial of space to the terrorists who were using Pakistan's soil to plan and execute terrorist attacks across Pakistan.

²⁷⁵ Syed Ali Shah, "Militants Gun down 20 Labourers in Balochistan," *Dawn News*, last modified April 11, 2015, <https://www.dawn.com/news/1175280>.

²⁷⁶ Abid and Ashfaq, "CPEC: Challenges and Opportunities for Pakistan," 151. Pakistani officials argue that arch-rival India is all out to spoil the project and that its intelligence agency, RAW, has created an exclusive desk—to the tune of \$300 million—for the purpose.

²⁷⁷ Wolf, "The China-Pakistan Economic Corridor." The operation was launched in the harsh terrain of North Waziristan, following major terrorist attacks including on Karachi's international airport and a Peshawar public school and the failure of peace negotiations between the government militants group, TTP. Besides TTP, the Pakistan Army, with the air support, dismantled hideouts of JuA, LeJ, Al Qaeda, and the ETIM.

²⁷⁸ Wolf, "The China-Pakistan Economic Corridor."

²⁷⁹ Saima Ghazanfar, "Operation Zarb-e-Azb: Two Years of Success," *Nation*, September 6, 2016, <http://nation.com.pk/national/06-Sep-2016/operation-zarb-e-azb-two-years-of-success>.

²⁸⁰ Hussain, "China Pakistan Economic Corridor," 19.

The Pakistan Institute for Conflict and Security Studies, which monitors terrorist activities in South and Central Asia, observed a record drop of terrorist attacks to a six-year low as a result of the operation.²⁸¹ The institute's study showed a 75-percent drop in KPK from 49 to 12 incidents per month and 31 to 16 incidents in FATA, the two places most affected by the violence.²⁸² It also reported that the operation has caused serious setbacks to the TTP's unity; the group has split into at least three main factions since the launch of the operation.²⁸³ Likewise, statistical data from the South Asia Terrorism Portal also validates these claims. According to the report, civilian fatalities from terrorist attacks have dropped by 40 percent, 69 percent, and 79 percent in 2014, 2015, and 2016, respectively. Table 4 illustrates the comparison of pre- and post-operation Zarb-e-Azb data.

Table 4. Fatalities in Terrorist Violence in Pakistan 2011–2017²⁸⁴

	Civilians	Security Forces Personnel	Terrorists	Total
2011	2,738	765	2,800	6,303
2012	3,007	732	2,472	6,211
2013	3,001	676	1,702	5,379
2014	1,781	533	3,182	5,496
2015	940	339	2,403	3,682
2016	612	293	898	1,803
2017	185	62	231	478
Total*	21,674	6,725	33,576	61,975

*Data through April 16, 2017

²⁸¹ Rahimullah Yusufzai, "Zarb-e-Azb: Findings and Conclusions," *News International*, June 21, 2015, <http://tns.thenews.com.pk/zarb-e-azb-one-year-on-findings-and-conclusions/#.WPezJfkrKUK>.

²⁸² Ibid.

²⁸³ Ibid.

²⁸⁴ Adapted from: South Asia Terrorism Portal, accessed April 24, 2017, <http://www.satp.org/satporgtp/countries/pakistan/database/casualties.htm>.

World leaders and forums across the globe have praised and acknowledged the successful results of the operation. The Bureau of Counterterrorism and Countering Violent Extremism in the U.S. State Department lauded Pakistan's efforts and stated that Pakistan "remained a critical counterterrorism partner in 2015."²⁸⁵

Subsequently, the operation has been further extended to the urban areas with special emphasis on Balochistan and Karachi to unearth a terrorist-criminal nexus. Law enforcement agencies with special integrated teams formed by Sindh Rangers, police, and intelligence teams carry out intelligence based operations to target terrorists, their supporters, sympathizers, and financiers. They have exposed and dismantled a number of sleeper cells in the urban areas that were being controlled by the terrorists from remote areas.²⁸⁶

Parallel to military operations, the soft power of political reconciliation as part of the National Action Plan has resulted in hundreds of Baloch militants, including mid-level leaders, voluntarily laying down their arms. These individuals have been provided full amnesty by the state in addition to other rewards.²⁸⁷ A number of key Baloch insurgent leaders have indicated their willingness to come to the negotiating table in the hope of a mutually agreed resolution. Brahamdagh Bugti, a separatist leader of the Balochistan Republican Party has stated that, "he is heading a democratic party and believes in dispute resolution through dialogue."²⁸⁸

Bit by bit, the successful operation has "restored the confidence of a nation that was shattered by the terror waves" and offers a promising future.²⁸⁹ However, it is more important to maintain an enduring peace and the rule of law in post-military operations,

²⁸⁵ Country Reports on Terrorism 2015, Bureau of Counterterrorism and Countering Violent Extremism, U.S Department of State, accessed April 28, 2017, <https://www.state.gov/j/ct/rls/crt/2015/257518.htm>.

²⁸⁶ Wolf, "The China-Pakistan Economic Corridor."

²⁸⁷ Umair Jamal, "Can CPEC Become a Reconciliation Force in Balochistan?" *Diplomat*, November 29, 2015, <http://thediplomat.com/2015/11/can-cpec-become-a-reconciliation-force-in-balochistan/>.

²⁸⁸ Ibid.

²⁸⁹ Ghazanfar, "Operation Zarb-e-Azb: Two Years of Success."

once the security responsibilities are shifted back to the civilian law enforcement agencies.

2. Political Dynamics

Political obstacles within Pakistan can also derail the execution of the CPEC project. Though there is a consensus of major political parties in Pakistan on the benefits of CPEC, there is a political controversy among various parties mainly on the selection of the route and the allocation of the funds related to the CPEC project.²⁹⁰ The key disagreement is on the priority of development of these routes; underdeveloped provinces like Khyber Pakhtunkhwa and Balochistan accuse the federal government of changing the original route on the pretext of security, which would only benefit more developed Punjab.²⁹¹ Though the government has denied any change in the planned route, budgetary allocations for the projects indicated the government's preference for the eastern route compared to the western route.²⁹² The lack of political consensus can have a negative effect on the implementation of CPEC, considering the deep-rooted history of the political economy of Pakistan where lack of vision and political clashes have resulted in the grounding of major development projects.²⁹³ History reveals that political gains take precedence over national interest, and issues like allocation of resources have always been politicized.²⁹⁴ Additional measures are thus necessary to ensure that a cross section of the country benefits from the project to nurturing cohesiveness and that the project does not land in local discontent.

In an attempt to address these reservations and build consensus on CPEC, the federal government conducted an All Party Conference on May 28, 2015.²⁹⁵ The conference discussed issues with regards to the CPEC route, and a national consensus

²⁹⁰ Markey and West, "Behind China's Gambit in Pakistan," 6.

²⁹¹ Ibid.; Abid and Ashfaq, "CPEC: Challenges and Opportunities for Pakistan," 154.

²⁹² Ramay, "CPEC: A Chinese Dream Being Materialized Through Pakistan," 6.

²⁹³ Wolf, "The China-Pakistan Economic Corridor."

²⁹⁴ Ali, "China Pakistan Economic Corridor: Prospects and Challenges for Regional Integration," 4.

²⁹⁵ Esteban, "The China-Pakistan Corridor," 3.

emerged to build the western route first by 2018. Moreover, all political parties pledged their political ownership to CPEC.²⁹⁶ To further diffuse the controversy, it was also agreed that there would be multiple options for transportation through different roads under the principle of “One Corridor, Multiple Passages.”²⁹⁷ Despite these affirmations, though, skeptical views remain about the risk of the project falling prey to provincial rivalries if no concrete steps are taken to safeguard all provinces’ interests.

The lack of transparency and secrecy in assigned deals is yet another issue, which has raised concerns among political parties and other stakeholders who have demanded the government make all CPEC-related agreements public.²⁹⁸ There is an impression that CPEC-related projects are exclusively controlled by the prime minister and his closest partners, where decisions are made secretly. Thus, the affected parties ask the government to make the decision-making process open and transparent.²⁹⁹ Furthermore, as there is no adequate representation of the provinces in the decision process, smaller provinces are not yet clear of their share of benefit from the CPEC. Thus, these provinces doubt the project’s fair allocation. To address the issue the government instituted a Parliamentary Committee in September 2015 to oversee the project. Nonetheless, it is believed that the Parliamentary Committee on CPEC has no influence in important decisions as the Ministry of Planning and Development manages the projects through the CPEC Secretariat set up within the ministry.³⁰⁰ Hence, it is vital to approach the issue more seriously if the project has to achieve local ownership.

C. CONCLUSION

Though CPEC presents greater avenues for broader regional cooperation, at least in the field of trade and economy, it also risks the creation of turbulence in the region, given the competing interests of the states in the area. The varying regional dynamics,

²⁹⁶ Irfan Haider, “Parties Pledge to Take Full Political Ownership of CPEC,” *Dawn News*, last modified May 28, 2015, <https://www.dawn.com/news/1184733>.

²⁹⁷ Esteban, “The China-Pakistan Corridor,” 3.

²⁹⁸ Nazir, “Macro and Micro Dividends of CPEC.”

²⁹⁹ Wolf, “The China-Pakistan Economic Corridor.”

³⁰⁰ Ibid.

conflicting interests, and a persisting state of suspicion and mistrust present a major hurdle in promoting regional integration. Although the evolving regional dynamics can have an impact on the implementation of CPEC, both Pakistan and China are determined to make the project a success due to its enormous benefits for the region in general and for the two countries in particular. Analysts argue that the accommodating attitudes of all the regional countries can help build regional cooperation, and the CPEC thus can promote regional peace and stability through regional integration.

V. RECOMMENDATIONS AND CONCLUSION

The detailed analysis in the preceding chapter suggests a generally positive outlook for the long-term success of CPEC. However, to overcome the potential challenges and impediments to implementation of the project, all the stakeholders—and Pakistan in particular—should take certain steps to achieve the desired ends. This chapter discusses these policy recommendations under the geostrategic/diplomatic and domestic domains. It also draws some conclusions about CPEC itself and Chinese-Pakistani relations.

A. DIPLOMATIC DOMAIN

Rapid changes are occurring within regional coalitions, which, in turn, have changed regional dynamics. Pakistan and China thus must comprehend the developing geopolitical situation and tailor their strategies accordingly to respond effectively to the implementation of the project. Through mutual trust and cooperation, Pakistan and China may prevail in the face of potential obstacles, shaped by the regional environment. Nevertheless, in the long run, success of CPEC is not limited to the bilateral engagements proposed but also to China and Pakistan's diplomatic policy in mustering support and cooperation from regional countries. Hence, through positive diplomatic exertion, China and Pakistan should address the apprehensions of involved regional states and discourage the attempts of any countries to undermine CPEC. Diplomatic efforts through the process of dialogue should aim to highlight the economic dividends of CPEC for the whole region. At the same time, Pakistan should also convey to its neighbors its intent and firm commitment to implement the project.

Persistent efforts by Pakistan to positively engage all the stakeholders, as discussed in the ensuing paragraphs, can help in execution of the project.

1. India

Normalization of relations between Pakistan and India are vital for the project to fully succeed. To establish mutually acceptable relations requires a change in the mindset

of decision makers in both countries. This can be achieved by chipping away their mistrust and hostility and negotiating on policies of shared interest, such as economic cooperation, to achieve a stable environment in the region.³⁰¹

To secure a thriving economy and a prosperous state through CPEC, Pakistan must reduce tensions with its neighbors, especially with India. A balanced and inclusive approach to incorporate neighbors in the project will be beneficial for the collective development of the region. In the event, CPEC has the potential to be extended to India through Punjab and Sindh via the eastern corridor. Accommodating India in the CPEC and allowing it to play an active role is likely to transform India into an important stakeholder, ensuring the success of the project. Likewise, India needs to review its apprehensive stance on the CPEC issue, based on pragmatic policy options rather than looking through the emotional lens. India should make a positive gesture to CPEC by accepting Pakistan's invitation to join CPEC³⁰² and by improving its relations with Pakistan, since the corridor offers great incentives for Indian aspiration to access Afghanistan, Iran, and the CAR states. Besides improved trade with Pakistan, CPEC would open up trade avenues and easy access to energy enriched resources through the shortest available land route via Pakistan. Moreover, CPEC can also help bring about the much awaited Iran-Pakistan-India gas pipeline, addressing India's energy needs. The mutual interdependency thus developed will result in an improved security situation and economic integration benefiting not only India and Pakistan but the whole of South Asia.

Pakistan and India need to settle all their outstanding issues through dialogue. Toward this end, China can play an essential role as mediator; it is the most suitable country to encourage both China and Pakistan to change their existing mindset. China can influence India due to growing Indo-Chinese cooperation such as the 'Bangladesh China India Myanmar Economic Corridor', which is part of OBOR, to link China's landlocked

³⁰¹ Umair Jamal, "India and Pakistan Find Overlapping Interests in Afghanistan," *Diplomat*, January 5, 2016, <http://thediplomat.com/2016/01/india-and-pakistan-find-overlapping-interests-in-afghanistan/>.

³⁰² Lt. Gen. Amir Riaz, commander of the Pakistan Army's Southern Command, Quetta Balochistan, in an address invited India to join the CPEC and "share the fruits of future development instead of employing subversive activities against Pakistan." Saleem Shahid, "India Urged to Shun Subversive Activities," *Dawn News*, updated December 22, 2016, <https://www.dawn.com/news/1303612/india-urged-to-shun-subversive-activities>.

Yunnan province to the Bay of Bengal,³⁰³ and Chinese willingness to invest in Indian infrastructure projects. Thus, China can assure that “the proposal to open access to the economic corridor for India has credible commitment at the highest levels in China.”³⁰⁴ Similarly, Pakistan should also use the platforms of the South Asian Association for Regional Cooperation and the Shanghai Cooperation Organization to pursue integration of India into a cooperative regional economic framework.

2. Afghanistan

Likewise, Afghanistan must integrate into the project to achieve viable peace and stability in Afghanistan. CPEC is likely to induce Afghanistan to maintain better relations with Pakistan to attain enhanced economic cooperation and interdependence. Pakistan and Afghanistan, thus, should work together to exploit the economic prospects offered by CPEC. Instead of accusing each other of creating instability in their respective countries, both countries should seek a solution to their mutual differences through dialogue, and they must address common issues such as cross-border terrorism and smuggling through better border management. A better managed border would facilitate achieving a stable internal security environment in Pakistan. Likewise, Pakistan should continue to persuade Afghanistan not to let any state or non-state actor use its country for disruptive activities against Pakistan. Pakistan, through diplomacy and using the forum of the Quadrilateral Coordination Group, should influence Afghanistan to assist in the elimination of the outlawed TTP’s leadership, which continues to operate from Afghanistan.

Additionally, Pakistan should keenly pursue the peace process in Afghanistan and continue with the policy of constructive engagement with Afghanistan to achieve political reconciliation through an Afghan-led and Afghan-owned political peace process as reiterated by Pakistan’s prime minister recently.³⁰⁵ The positive Chinese role in

³⁰³ Pravakar Sahoo and Abhirup Bhunia, “BCIM Corridor a Game Changer for South Asian Trade,” East Asia Forum, July 18, 2014, <http://www.eastasiaforum.org/2014/07/18/bcim-corridor-a-game-changer-for-south-asian-trade/>.

³⁰⁴ Wolf, “The China-Pakistan Economic Corridor.”

³⁰⁵ “Nawaz Renews Support for Afghan-led Peace Effort,” *News International*, January 20, 2017, <https://www.thenews.com.pk/print/180528-Nawaz-renews-support-for-Afghan-led-peace-effort>.

Afghanistan to achieve political reconciliation and stability could in turn also assist in enhancing Pakistan-Afghanistan diplomatic as well as economic relations.

3. Iran

With the resumption of Iran's global economic position in a dynamic regional setting, Pakistan and China need to integrate Iran in the economic initiative for the mutual benefit of all the involved actors. Iran's support of CPEC would result in improved mutual interdependence and promote regional stability, throwing away the regional proxies. Likewise, the prospects of Gwadar and Chabahar ports being associated as regional ports for sharing shipment loads, make regional trade and integration also seem likely.³⁰⁶

Since the economic sanctions on Iran have been lifted, Pakistan should proactively work to complete the Iran–Pakistan gas pipeline. Iran has almost concluded the job inside Iran up to Pakistan's border with an investment of \$2 billion.³⁰⁷ Pakistan may exploit Iranian influence on India for an extension of the pipeline toward India. Moreover, Iran can also assist Pakistan by denying Iran's soil for Indian activities in Balochistan. During a meeting, just two days after the arrest of RAW's spy in Balochistan, Pakistan's army chief made the following request of the Iranian president: "There is one concern that RAW is involved in Pakistan, especially in Balochistan, and sometimes also uses the soil of our brother country, Iran. I request, they (Indians) should be told to stop these activities and allow Pakistan to achieve stability."³⁰⁸

4. States of the Central Asian Republics

Though all the CAR states have generally welcomed the CPEC initiative, Pakistan and China should proactively engage to persuade these states to go along with the project. These landlocked states should be made important stakeholders in the project by offering

³⁰⁶ Hassan Rouhani, "President of Iran-Media Brief during Pakistan's Visit," *Daily Times*, March 26, 2016, <http://www.dailytimes.com.pk/national/26-Mar-2016/gwadar-chabahar-ports-to-link-pakistan-iran-with-central-asia>.

³⁰⁷ Ibid.

³⁰⁸ "Deny Soil to RAW, Pakistan Tells Iran" *Daily Times*, March 27, 2016, <http://www.dailytimes.com.pk/national/27-Mar-2016/deny-soil-to-raw-pakistan-tells-iran>.

partner-based proposals rather than dependency-based options to keep them away from Indian and Iranian influence. As the CAR states are in dire need of a passage to reach warm waters, these states will definitely choose the option that is economically more viable to them in the long run.

Furthermore, Russian influence on the CAR states cannot be denied, keeping in mind the historical perspective. Russia would not like to be challenged in this domain and may consider the project a potential threat to its influence in the region. Pakistan should, therefore, convince Russia of the project's long-term benefits for the region and develop close ties to gain her confidence for the implementation of CPEC. At the same time, Pakistan must avoid disturbing its relations with the United States. By using the Shanghai Cooperation Organization platform, Pakistan and Russia can work together to enhance cooperation in the areas of economy, energy, defense, and anti-terrorism.

5. United States

Geopolitics notwithstanding, because of economic opportunities attached to CPEC, the United States may opt to remain neutral in the short term. The U.S. non-involvement may thus enable China and Pakistan to complete the CPEC project. Subsequently, the United States may utilize Chinese economic potential to stabilize the region and exploit the infrastructure to access the CAR states. Regardless of these positive signs, however, Pakistan should play its role in regional and global harmony through balanced and positive diplomatic engagement with both China and the United States. The CPEC platform is the right opportunity to foster trilateral cooperation among the United States, China, and Pakistan. Taking a lead from history, Pakistan should play its role as the facilitator between the United States and China in creating a friendly environment by exploring areas of convergence. Through constructive engagement, Pakistan should convince the United States of the potential benefits of CPEC for regional economic development, particularly for a stable Afghanistan, through regional connectivity. In turn, the United States could redirect part of its civilian assistance funds in schemes that would eventually support the CPEC objectives, such as technical assistance in capacity building of skilled labor, to improve railway's performance, or in

creation of jobs. The U.S. government can also help Pakistan by encouraging and providing incentives for U.S. firms to invest in Pakistan. In return, Pakistan should provide a level playing field to all investors by extending the same kind of protection, as the inflow of foreign investment will truly boost economic growth, ensuring the success of CPEC.

B. DOMESTIC DOMAIN

Pakistan must keep its house in order for timely implementation of the project to reap the true benefits of economic prosperity, stability, and an enriched quality of life for its people. Following are the policy recommendations in this regard.

1. Internal Security

Because the benefits of CPEC are related to its timely completion, internal peace and stability are thus vital for successful execution of the project. A secure and stable environment in Pakistan is necessary to gain the true benefits of the project without mitigating the economic gains by spending more on physical security for the project. To tackle the security situation permanently, the federal government, with the help of provincial governments and security agencies, must religiously execute the multipronged strategy already spelled out in the National Action Plan,³⁰⁹ involving both hard and soft powers. Execution of the plan across the country without any political hurdles is necessary to ensure a lasting peace and stability in the long run.

With the successful execution of operation Zarb-e-Azab, the security situation has generally improved throughout the country. Civil law enforcement agencies can now manage the CPEC-related security with the help of a dedicated security apparatus for that purpose. However, cooperation between security forces and law enforcement agencies along the CPEC route—especially in restive Balochistan, which is crucial to CPEC but rife with security issues—is necessary for timely completion of the project in a secure environment. A workable lateral coordination mechanism between security forces, law

³⁰⁹ “20 Points of National Action Plan,” National Counter Terrorism Authority Pakistan, accessed May 5, 2017, <http://nacta.gov.pk/NAPPoints20.htm>.

enforcement, and intelligence agencies, such as a fusion center along the lines of the National Counter Terrorism Authority Pakistan (NACTA) with an exclusive focus on CPEC-related security, is essential for the foolproof protection of the route and staff working on the CPEC-related projects. Swift intelligence sharing and quick responses as a result will enhance the overall security environment.

The effective joint operations by Sindh Rangers, police, and intelligence agencies have yielded better results in Karachi by dismantling the terrorist-criminal nexus, exposing both their local and foreign supporters, facilitators, sympathizers, and financiers. Likewise, a continuation of the drive against terrorism through the recent initiation of operation Radd-ul-Fasaad, which is set to “eliminate the residual/latent threat of terrorism, consolidating the gains made in other military operations thus far,”³¹⁰ is a step in the right direction. It will further help in the elimination of all forms of terrorism, especially to dismantle the terrorist support bases in Southern Punjab responsible for sectarian-based extremism and violence.

Besides military operations, Pakistan must fully exploit the environment of reconciliation created thus far. Pakistan has contacted many self-exiled insurgent leaders through various direct and indirect channels.³¹¹ The process of political reconciliation is a positive change to provide a chance to those individuals who want to end violence and join the mainstream. Provision of such incentives and making the local people stakeholders in the project would result in a stable environment, ensuring the success of the project.

2. Political Consensus

Pakistan must assert the CPEC initiative as a national project to develop a national consensus and gain the full support and trust of whole population. To this end, the federal government should not present the appearance of bias toward a particular

³¹⁰ “Pakistan Army Launches ‘Operation Radd-ul-Fasaad’ Across the Country,” *Dawn News*, last modified February 22, 2017, <https://www.dawn.com/news/1316332>.

³¹¹ Kamran Yousaf, “Army Chief in London: UK Urged to Act against HuT, Baloch Separatists,” *Express Tribune*, January 15, 2015, <http://tribune.com.pk/story/822083/army-chief-in-london-uk-urged-to-act-against-hut-baloch-separatists/>.

province; the government must take special steps to address the concerns and grievances of smaller provinces that feel sidelined, particularly KPK and Balochistan. To include all the provinces in the initiative, government officials should establish all the corridors with development of the western corridor as a priority. CPEC must be projected as a national entity with all-inclusive appeal for all to participate, taking complete ownership of the project. The federal government, along with provincial governments, should work with local administration and welfare organizations at the grass-root level to persuade the public about the project's benefits to common people. Pakistan's government must involve think tanks, civil society, and media to disseminate the message that "peace brings development,"³¹² to dispel the negative perceptions and fears relating to the project. Removal of internal differences and thinking beyond party and provincial lines for national interest is, thus, essential to present a united front to ensure successful implementation of the project.

The federal government should also address the genuine concerns and grievances of the local populace in Balochistan, who are the primary victims of underdevelopment and militancy in the region. The local populace in underdeveloped areas such as Balochistan and Gilgit-Baltistan should be offered special incentives in the project to embrace them into the national mainstream. This action will encourage the locals to willingly participate and own the project, besides countering state and non-state actors who usually exploit the grievances and sense of deprivation of these locals for their plans to undermine the project.

Transparency in dealing with the project is yet another factor for successful implementation of the project. Policy decisions regarding planning, allocation of funds, and subsequent implementation of the project, therefore, needs to be fair and transparent. Government should ensure representation of all the provinces, including Gilgit-Baltistan, as part of the decision-making body to make the process transparent. Any attempt at nepotism or favoritism in the process may result in undesired consequences. The federal government must also constitute a sound mechanism for rational distribution of CPEC

³¹² Wolf, "The China-Pakistan Economic Corridor."

revenues between the federal government and provinces, and it must ensure that all provinces receive their due share of the profits generated through CPEC and related projects.

Similarly, an effective monitoring and implementation legislative body is required to strictly scrutinize the project's execution, ensuring quality of work and timely completion of all the projects. The body should be responsible for regularly sharing the physical as well as financial progress of the different components of the project to all stakeholders. The formation of Prime Minister's Delivery Unit in April 2015, to oversee the timely execution of main development projects, including CPEC,³¹³ is a welcome step. However, proof of the efficiency of the unit has yet to be seen. Likewise, the Ministry of Planning Development and Reform should also ensure timely completion of Early Harvest energy projects. The timely availability of energy will in turn ensure the initiation process of the Special Economic Zones.

C. CONCLUSION

Sino-Pakistan relations have gradually evolved in every field in the long history between the two countries, including trade and investment. Nevertheless, the changed regional and global environments in the expanding globalization context have driven both countries to expand economic ties to match global and regional interdependency in trade and investments, thus bringing economic relations at par with political and defense relations.

CPEC signifies a new kind of Sino-Pakistan cooperation with the potential to further strengthen the two countries' political and economic relationship through trade and development. The project has strategic and economic importance for both China and Pakistan and the ability to eventually facilitate the creation of regional stability in South Asia. CPEC has the prospects to bring peace and prosperity in the long run due to the attractive geo-economic aspect and the direct stakes of regional states in each other's stability. As a flagship of OBOR, CPEC can encourage other regional states, including

³¹³ "PM Delivery Unit Starts Functioning," Prime Minister's Office, Islamic Republic of Pakistan, April 30, 2015, http://www.pmo.gov.pk/press_release_details.php?pr_id=939.

CAR states, to engage in similar projects, thus stimulating regional trade and economic integration.

The projects worth US\$46 billion offer a special opportunity to Pakistan to address some of the main obstacles to its economic growth, such as the energy crisis, poor communication infrastructure, and narrow foreign investment. CPEC's anticipated socioeconomic development would bring peace and stability to the country in general and specifically to the restive and backward province of Balochistan by engaging youth in commercial activities, making the province more economically viable and sustainable. The project is expected to increase employment opportunities, reduce poverty through progressive economic uplift of underdeveloped areas, and improve the socioeconomic outlook of the country by increased spending on education, health, and other basic services.

Despite the significance of CPEC for the region in general and for China and Pakistan in particular, the project is confronted with various internal and external challenges. The success of the project particularly depends upon regional geopolitical issues, especially India's position on the project, Afghanistan's instability and its spillover to Pakistan, and the trust deficit between some regional countries. Internally, Pakistan needs to deal with security challenges and political controversy with regards to route selection, which may hinder the execution of the project.

Though the evolving regional dynamics can have an impact on the implementation of the CPEC, both Pakistan and China are determined to make the project a success due to its enormous benefits for the region in general and for both the countries in particular. However, the positive impact on the region depends upon the project's ability to extend beyond China-Pakistan borders for regional connectivity. Thus, through the policy of inclusion, Pakistan and China should rationally engage with involved actors and persuade them to become equal stakeholders instead of rivals in the project.

Nonetheless, in the long run, timely and transparent implementation of the CPEC project in line with the aspirations of all the key stakeholders has the potential to elevate the socioeconomic condition of Pakistan and change the economic outlook of the region as a whole.

APPENDIX A. ENERGY PRIORITY PROJECTS

Projects	MW	Estimated Cost US\$ Millions
Port Qasim Electric Company Coal Fired, 2X660, Sindh	1,320	1,980
Sahiwal 2x660MW Coal-fired Power Plant, Punjab	1,320	1,600
Engro thar 4x330MW Coal-fired, Thar, Sindh	1,320	2,000
Surface mine in Block II of Thar Coal Field, 6.5 mtpa, Thar Sindh		1,470
Gwadar Coal Power Project, Gwadar	300	360
HUBCO coal power plant 1X660 MW, Hub Baluchistan	660	970
Rahimyar Khan Coal Power Project, Punjab	1,320	1,600
SSRL Thar Coal Block 1–6.5mtpa Thar, Sindh		1,300
SSRL 2x660 MW Mine Mouth Power Plant,	1,320	2,000
Quaid-e-Azam 1000MW Solar Park, Bahawalpur, Punjab	1,000	1,350
Dawood 50MW Wind Farm, Bhambore, Sindh	50	125
UEP 100MW Wind Farm, Jhampir, Sindh	100	250
Sachal 50MW Wind Farm, Jhampir, Sindh	50	134
Sunnec 50MW Wind Farm, Jhampir, Sindh	50	125
Suki Kinari Hydropower Station, KPK	870	1,802
Karot Hydropower Station, AJK & Punjab	720	1,420
Matuari to Lahore Transmission Line		1,500
Matuari to Faisalabad Transmission line		1,500
Total (Priority)	10,400	21,486

Source: “CPEC-Energy Priority Projects,” CPEC: China Pakistan Economic Corridor, Accessed January 27, 2017, <http://cpec.gov.pk/energy>.

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APPENDIX B. ACTIVELY PROMOTED ENERGY PROJECTS

Projects	MW	Estimated Cost US\$ Millions
Gadani Power Park Project		
(1) 2x660 MW	1,320	3,960.00
(2) Jetty + Infrastructure		1,200.00
HUBCO coal power plant 1X660 MW, Hub Baluchistan	660	970.00
Salt Range Mine Mouth Power Project including mining, Punjab	300	800.00
Kohala Hydel Project, AJK	1,100	2,397.00
Pakistan Wind Farm II 2X50 MW (Jhampir, Thatta, Sindh)	100	150.00
Thar Mine Mouth Oracle, Thar Sindh	1,320	1,300.00
Muzaffargarh Coal Power Project, Punjab	1,320	1,600.00
Gas Power Plant 525 MW	525	550.00
Total (Actively Promoted)	6,645	12,927.00
TOTAL Energy Projects	17,045	34,413.00

Source: “CPEC-Energy Actively Promoted Projects,” CPEC: China Pakistan Economic Corridor, Accessed January 27, 2017, <http://cpec.gov.pk/energy>.

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APPENDIX C. INFRASTRUCTURE PROJECTS

Projects	Length (KM)	Estimated Cost US\$ Millions
Roads		
KKH Phase II (Raikot — Islamabad Section)	440	3,500
Peshawar-Karachi Motorway (Multan-Sukkur Section)	392	2,600
Rail Sector Projects		
Expansion and reconstruction of existing Line ML-1	1,736	3,650
Havelian Dry Port (450 M. 20-foot equivalent units)		40
TOTAL		9,790

Source: “CPEC Infrastructure Projects,” CPEC: China Pakistan Economic Corridor, Accessed January 27, 2017, <http://cpec.gov.pk/infrastructure>.

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APPENDIX D. GWADAR DEVELOPMENT PROJECTS

Projects		Estimated Cost US\$ Millions
1	Eastbay Expressway	140.60
2	Gwadar International Airport	230.00
3	Construction of breakwaters	123.00
4	Dredging of berthing areas and channels	27.00
5	Infrastructure for Free Zone and EPZs port-related industries	32.00
6	Necessary facilities of fresh water treatment and supply	130.00
7	Hospital at Gwadar	100.00
8	Technical and Vocational Institute at Gwadar	10.00
Total		793.00

Source: “CPEC Gwader Projects,” CPEC: China Pakistan Economic Corridor, Accessed January 27, 2017, <http://cpec.gov.pk/gwader>.

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